MERGERS & ACQUISITIONS

ANNUAL REPORT

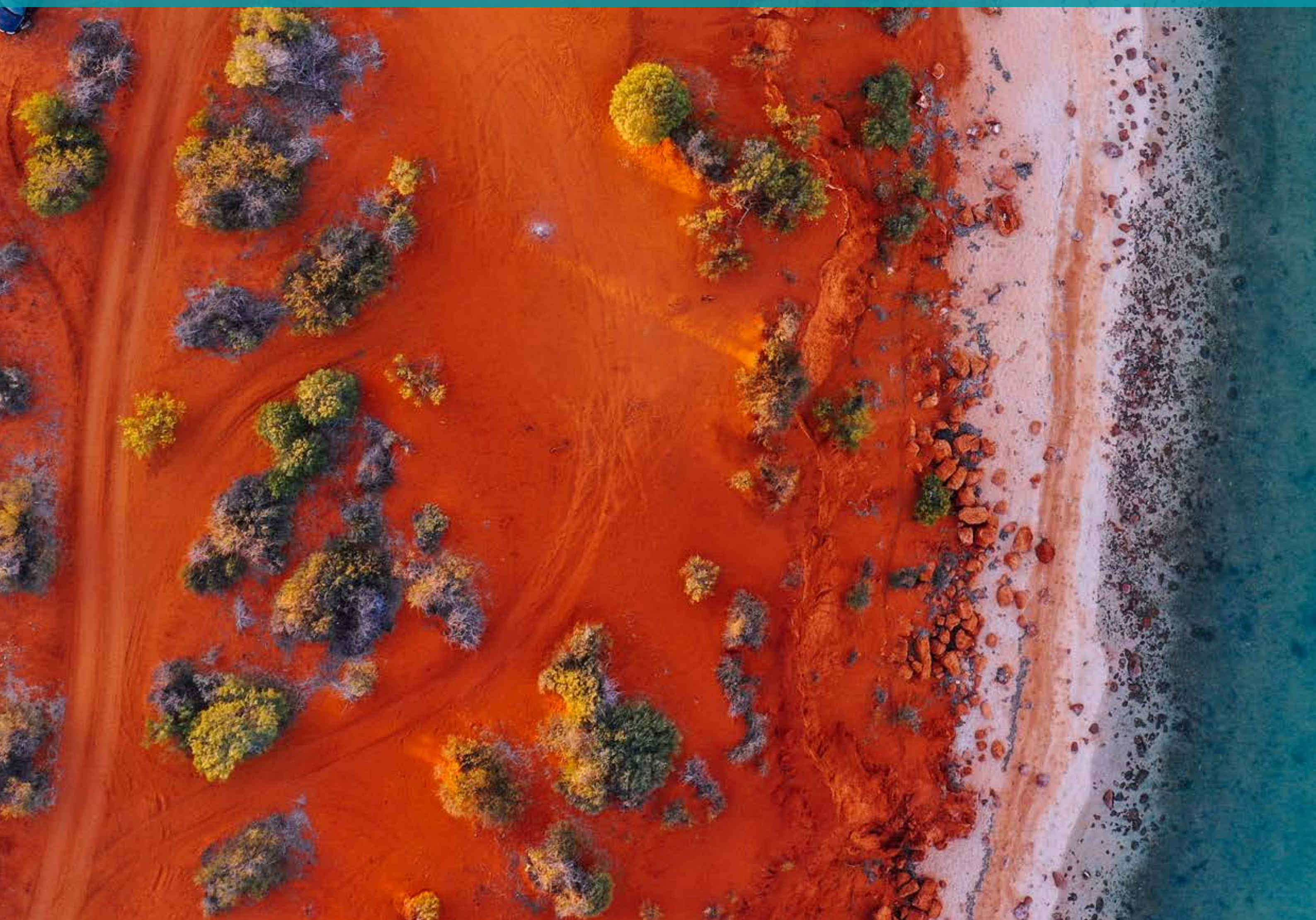
FY2022 AND BEYOND

HLB MANN JUDD
ADVISORY AND ACCOUNTING

HLB.COM.AU

TOGETHER WE MAKE IT HAPPEN

CONTENTS



INTRODUCTION

The financial year ended 30 June 2022 ("FY2022") has been an "interesting year" for M&A and economies in general. Following the economic recovery from the COVID-19 pandemic, access to cheap capital, built-up cash reserves and other macroeconomic factors, we saw M&A activity increase significantly in Q1 and Q2 of FY2022.

However, the last two quarters of FY2022 saw a decline in deals due to rising global political tension, higher inflation, and the impact of contractionary fiscal and monetary policies that have followed. Nonetheless, deal activity in Australia remained resilient overall in FY2022.

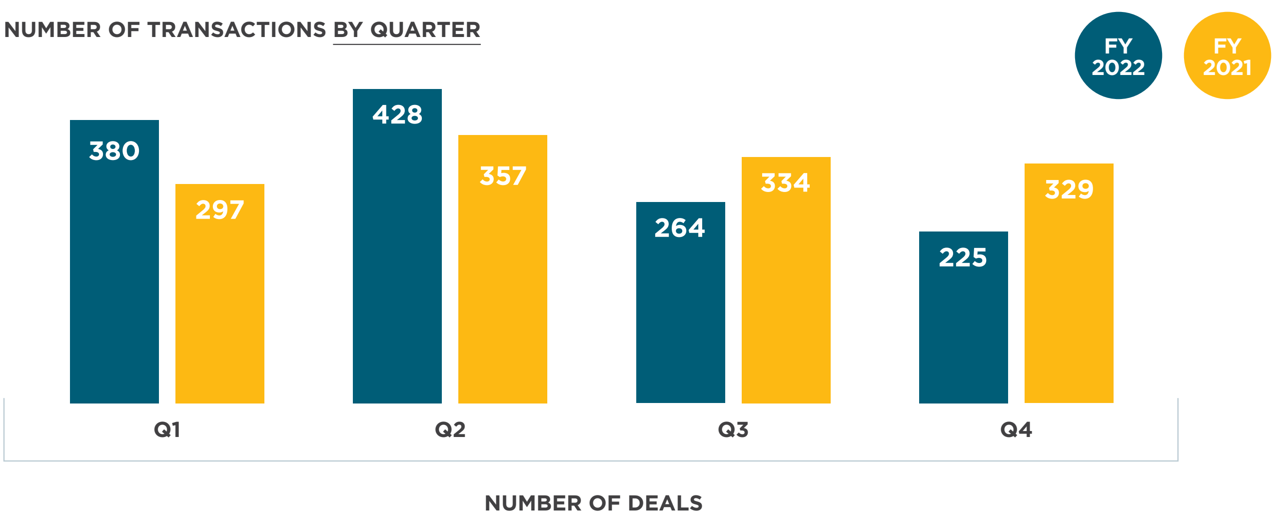
This report will analyse deal volume, pricing and industries, as well as provide an overview of deal activity in the SME space and highlight some deals that HLB Mann Judd has assisted with.

Based on our involvement in deals and discussions with clients, we are seeing a sustained level of deal appetite in the Australian market. Australia's strong economic growth, political stability and protection from many of the global economic issues means the M&A market future looks promising particularly in the mid-market.

NUMBER OF TRANSACTIONS

Based on publicly available data, 1,297 deals completed in FY2022, a slight decrease from 1317 in FY2021. The graph below displays deal activities by quarter, with Q2 FY2022 coming in with the highest number of deals, likely from the push to complete transactions before the calendar year end which is consistent with FY2021. The reduced number of deals in Q3 FY2022 and Q4 FY2022 compared to the same period in FY2021 may indicate the cautious approach being taken by market participants reflecting the growing concern of global political challenges, economic uncertainty, and inflation.

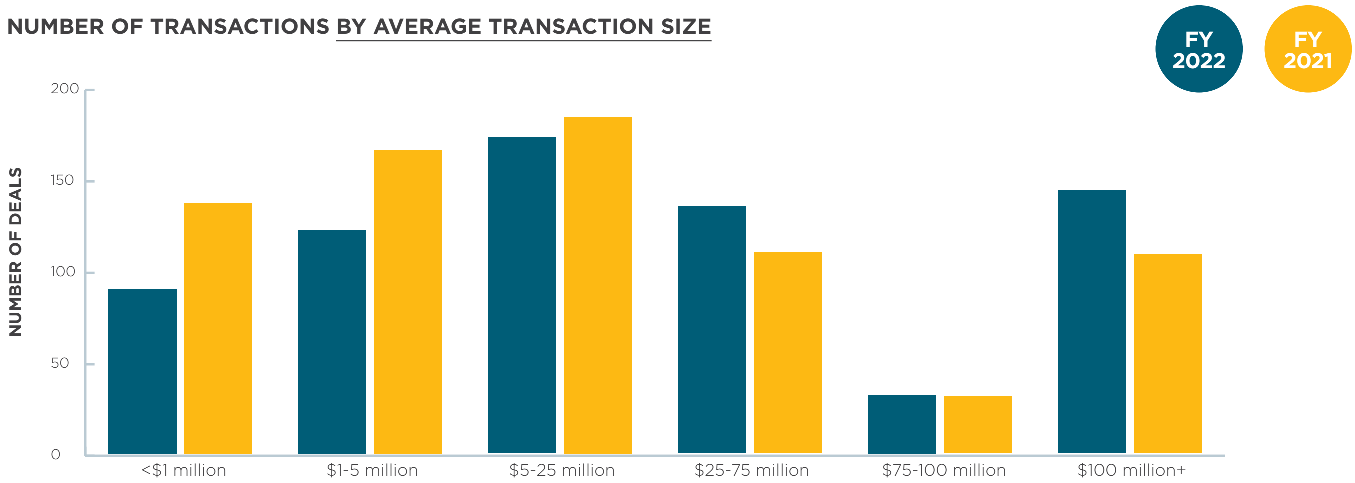
NUMBER OF TRANSACTIONS BY QUARTER



TRANSACTION VALUES

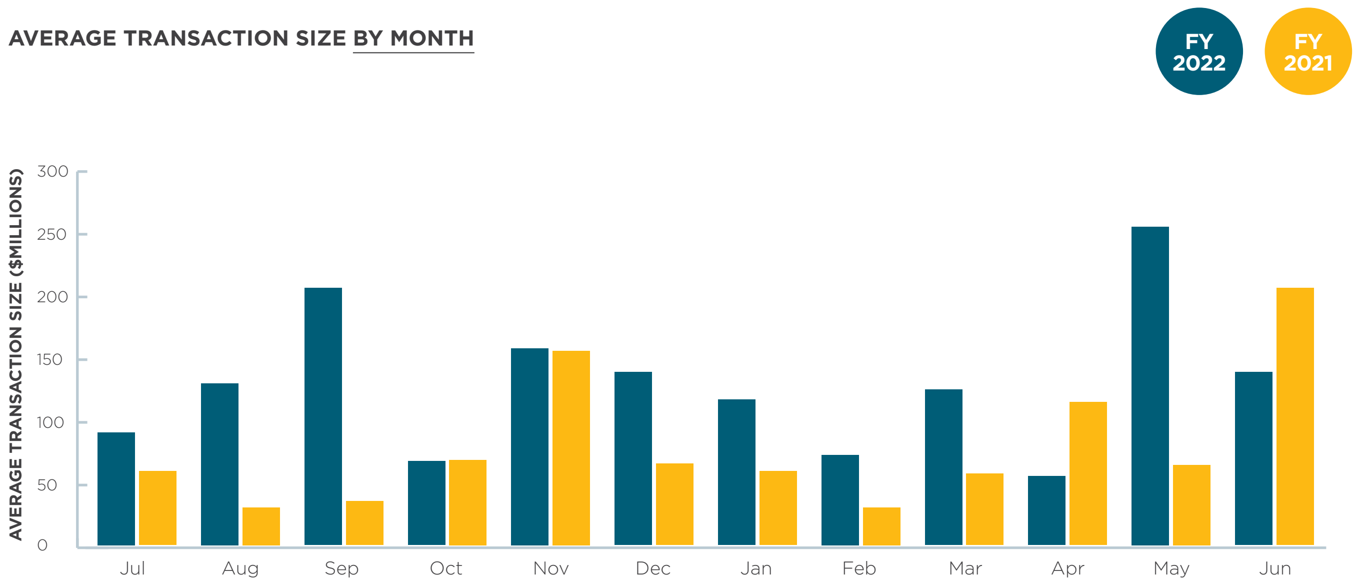
While we saw the number of deals decrease in FY2022, the average transaction size increased from $80.36 million in FY2021 to $126.30 million in FY2022. As shown in the graph below, the increase in the average deal size is driven by a redistribution in the size of deals, with more deals in FY2022 above $100 million and less deals completed below $5 million. This likely reflects a decrease in the observed opportunism within the market experienced in FY2021 following the disruptions from the ongoing COVID-19 pandemic which led to a higher number of smaller deals being completed.

NUMBER OF TRANSACTIONS BY AVERAGE TRANSACTION SIZE

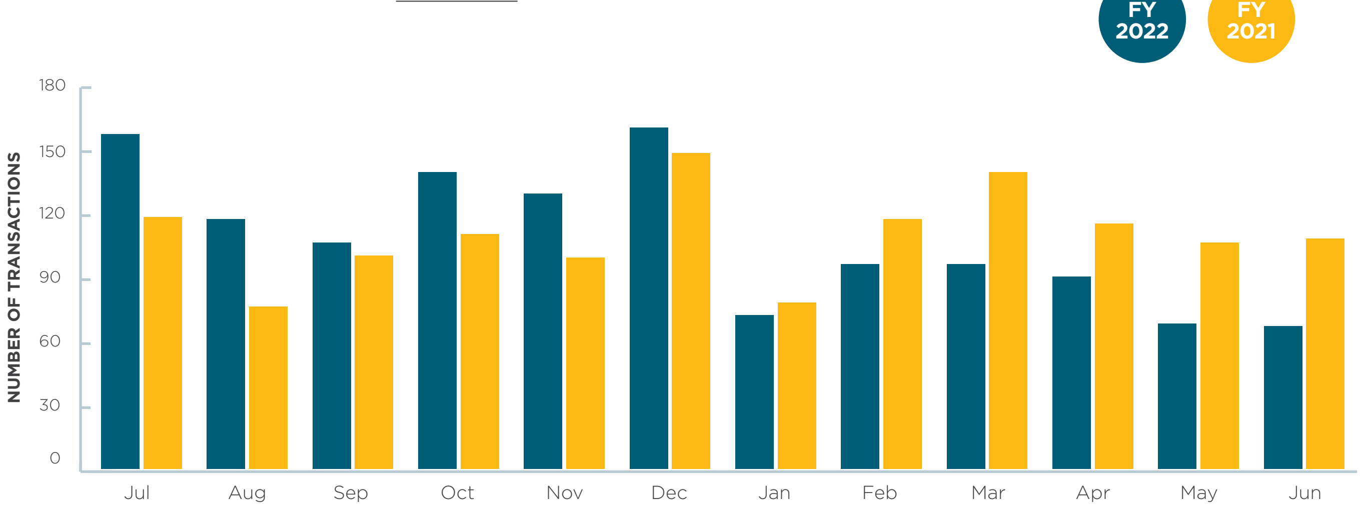


When looking at transactions on a monthly basis, the number of transactions completed each month appears relatively consistent when comparing FY2022 and FY2021, however there is a smaller number of transactions during February to June 2022 compared to the prior year. This aligns with the time when supply chain disruptions worsened due to the escalating situation in Ukraine and ongoing COVID-19 response measures.

AVERAGE TRANSACTION SIZE BY MONTH

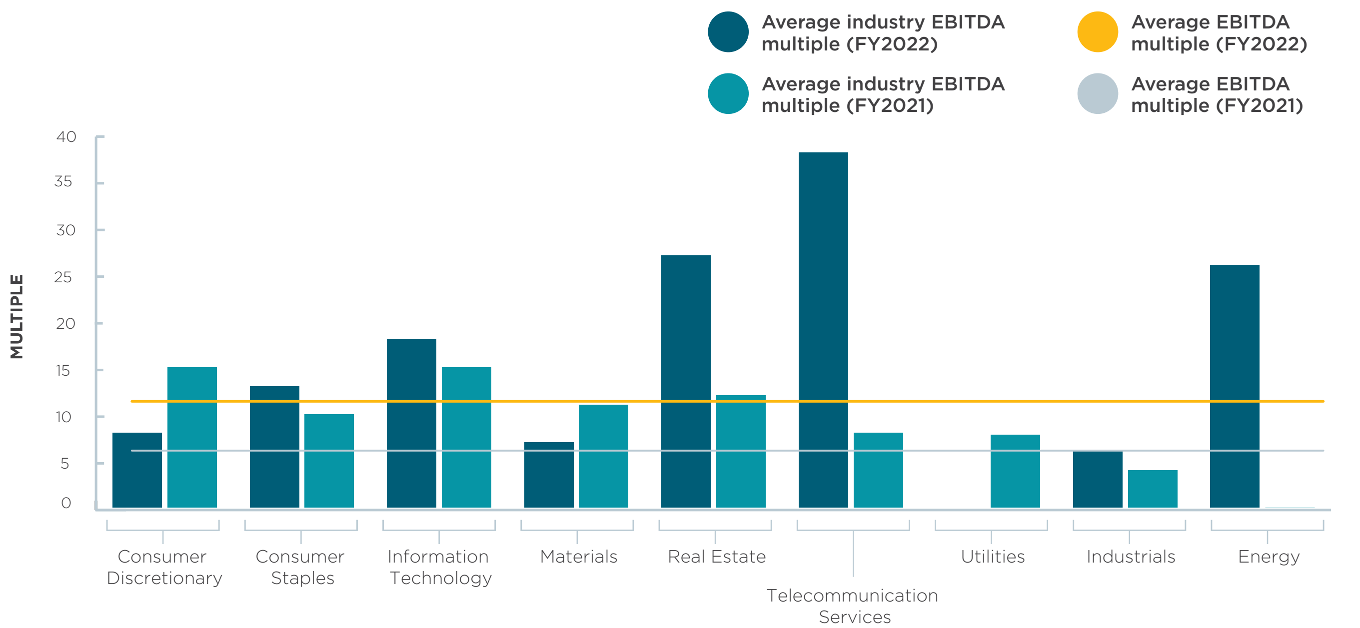


NUMBER OF TRANSACTIONS SIZE BY MONTH



MULTIPLES

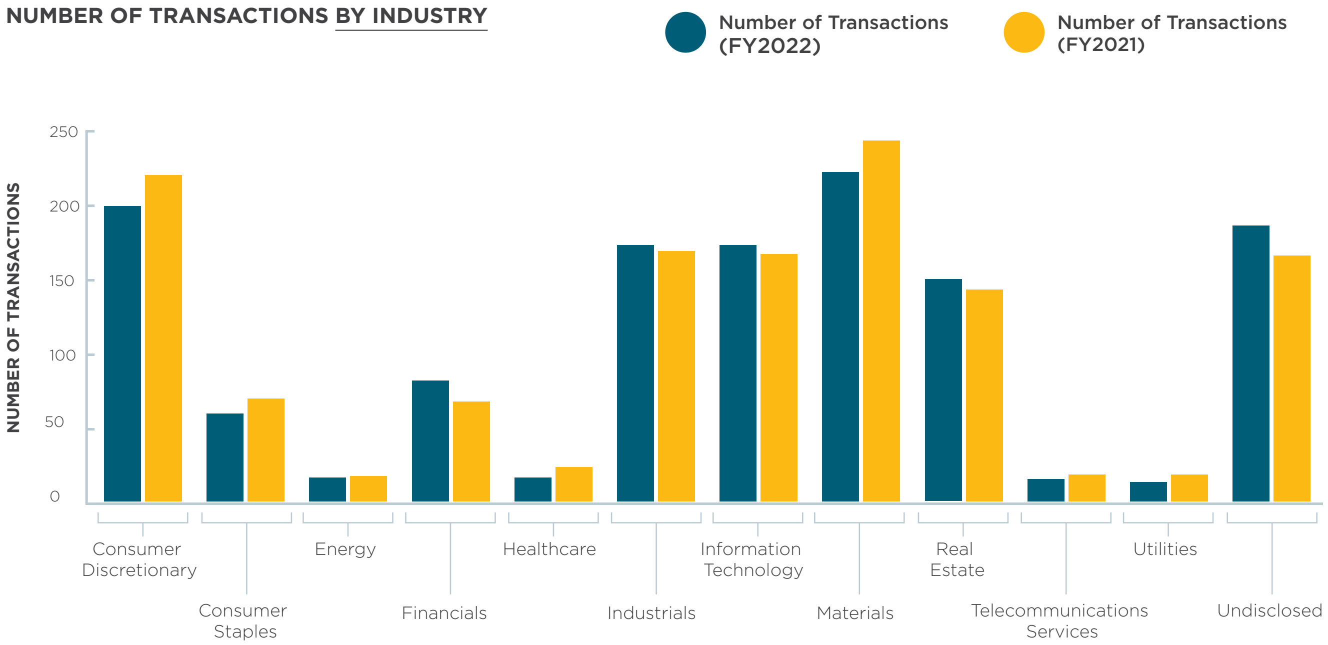
The real estate and telecommunication services industries have all seen an increase in the average EBITDA multiple in FY2022 compared to FY2021. The overall average multiple for deals increased from 10.7x in FY2021 to 12.1x in FY2022, reflecting the decline in risk perceived by purchasers, however we note this may change in early FY2023 given the macroeconomic shift observed in the second half of FY2022.



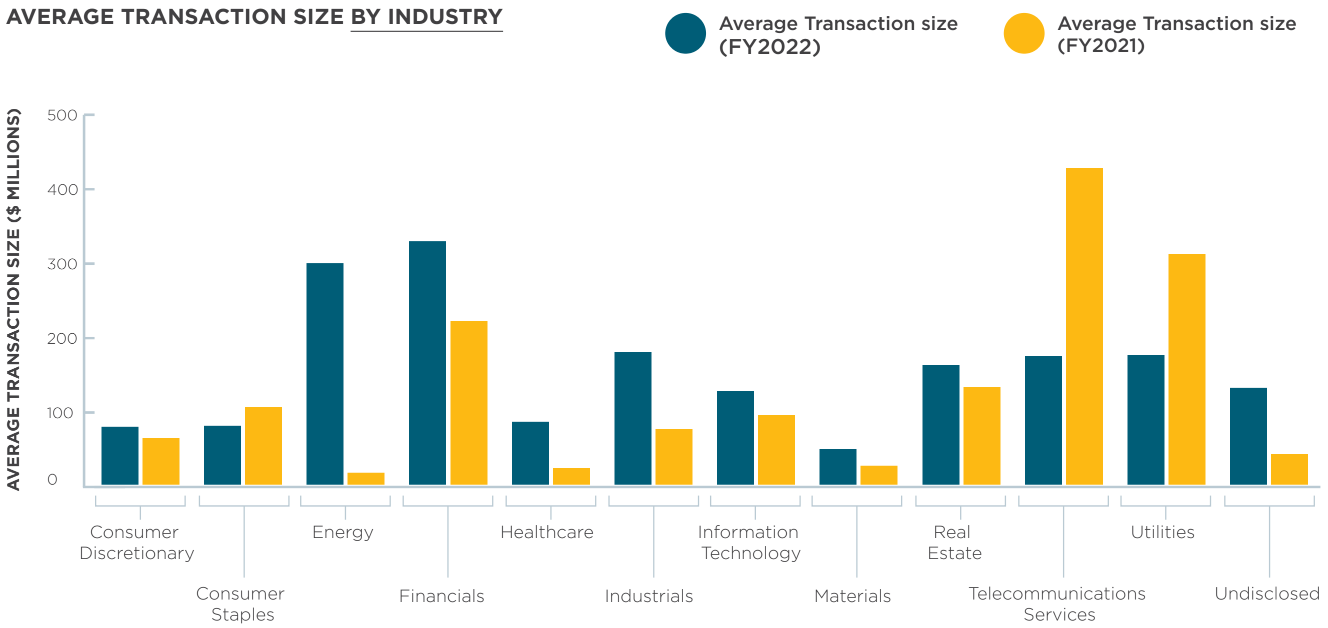
INDUSTRY ANALYSIS

While the number of deals by industry is relatively stable during FY2022 compared to FY2021, the average transaction size was significantly higher in the energy (up 1,773%), healthcare (up 285%), industrials (up 139%) and financials industries (up 49%). This suggests these industries may not have been as heavily impacted by the COVID-19 pandemic, global political tensions and global supply chain disruption as others. Conversely, the telecommunications and utilities industries experienced a decline in the average transaction size of 60% and 44% respectively in FY2022.

NUMBER OF TRANSACTIONS BY INDUSTRY



AVERAGE TRANSACTION SIZE BY INDUSTRY



> "There are plenty of opportunities for investors and those looking to grow and gain competitive advantage"
>
> Simon James, Partner - Advisory

FY2023 OUTLOOK

Based on our involvement in deals and discussions with clients, we are seeing a sustained level of deal appetite in the Australian market.

The demand shows no signs of stopping in FY2023, but there are potential issues ahead, including rising inflation and interest rates, tougher regulations and supply-chain pressures which could slow momentum.

But regardless of any possible bumps in the road, confidence among business leaders about what the future holds remains high. A recent HLB International annual survey of business leaders found that 73% of leaders feel more confident in their ability to innovate compared to before the pandemic. Their overall confidence in future business growth prospects is also higher at 84%, compared to 76% in 2021.

Cautious optimism

The restrained demand for M&A created by the pandemic has also had other economic impacts and these could continue to provide a source of uncertainty in global markets going forward.

In many ways, the pandemic created an unprecedented economic situation where many previously unthinkable factors were brought into play, from government stimulus programmes to an insatiable appetite – and need – for technology to enable areas such as remote working.

A return to some kind of normality could therefore prove a type of double-edged sword for M&A as public stimulus programmes have been scaled back in favour of more conservative approaches to spending and the need for rapid technological transformation becomes less urgent for some companies.

However, growing concerns over economic uncertainty, high inflation, cost of debt, access to labour and global political tensions may impact M&A activity in the next financial year, and indeed HLB Mann Judd's IPO Watch Mid-Year Report 2022 (https://hlb.com.au/ipo-watch-australia-mid-year-report/) suggests a shift in investor sentiment has already resulted in more difficult conditions for fundraising.

But even in the face of such instability, specific industries including fintech, health-tech, property-tech, agri-techs, and other technology-related businesses are less likely to be impacted and deals will continue to happen.

Opportunities

In the coming year, venture capital and private equity firms are likely to be the strongest buyers given the amount of funds they can deploy.

The active sectors over the past two years such as IT, manufacturing, technology will continue to provide opportunity and interest.

Health and wellness are likely to continue to prompt interest and deal volume as well as medical-tech and other areas which feed into them.

Clean energy projects such as hydro, wind and solar will play a strong role in the M&A space alongside biotechnology-related players.

We could also see the verticalisation of some specific industries. For example, the retail sector is moving from physical stores to e-commerce, plugging payment systems, and developing its own logistics system.

Distance learning tech will also continue to develop at pace, with the movement to distance learning during the pandemic having led to greater technical refinement and a burgeoning education tech start-up scene, with established institutions such as universities and schools continuing to invest.

Consumer packaged goods deals are also likely to remain strong.

Rising inflation, interest rates and other challenges have driven an increase in the number of distressed businesses, particularly in those industries where there's an inability to pass on changes in costs, such as construction and also retail and service-based sectors.

This presents a unique opportunity for businesses in these sectors to expand and grow operations, by acquiring another business at a value lower than it would cost to build from the ground up, with the potential added value of additional skilled workers which are crucial in the current labour shortage.

Sector analysis

While individual sectors will have varying levels of potential going forward, all are underpinned by environmental, social and governance (ESG) and the growing trend towards being seen to be greener.

In research conducted by Mergermarket earlier this year, 65% of dealmakers said ESG was now an important consideration when they were thinking about potential deals, and 60% said they had walked away from at least one transaction because of ESG issues.

With this in mind, buyers are asking tougher questions about ESG compliance before following through on deals, so how these commitments will be communicated to customers and employees will be a focus of these industries in the coming year and beyond.

Unsurprisingly, technology remains the undoubted growth driver, along with all of the sectors it intersects. With well-publicised shortages in the labour market, we may see M&A activity driven by a demand to acquire skilled workforces, particularly in the technology sector.

Lessons learned on the importance of supply chains during Covid are also continuing to shape industries and how they invest, with greater demand for data-driven solutions and the companies which can provide them.

Retail and consumer goods are likely to see greater consolidation, but uncertainty remains in how the sector will recover following global lockdowns. Many long-established retail chains have gone bust or moved their operations wholly online, which could present opportunities in the retail tech sphere.

New technology may play a greater role in the manufacturing sector by consolidating efficiency too.

With Covid likely to remain a significant issue for many countries for the foreseeable future, healthcare will remain a key sector, with private healthcare especially expected to benefit.

Those sectors which are still hampered by significant supply chain issues may be less attractive. Those businesses that innovate and pivot their operating effectiveness will see continued growth and opportunities.

And with border restrictions being eased and Covid vaccination programmes now well underway across much of the world, travel and hospitality should slowly continue its recovery.

MAJOR DEALS

THE TOP DEALS BY TRANSACTION VALUE IN FY2022 WERE:

SECTOR	TARGET	ACQUIRER	SELLER	STAKE ACQUIRED (%)	TRANSACTION VALUE ($ MILLIONS)
INDUSTRIALS	John Laing Group plc	KKR & Co. Inc.	Soros Fund Management LLC	100	3,931.1
FINANCIALS	Milton Corporation Limited	Washington H. Soul Pattinson and Company Limited	Shareholders (public company, delisted)	100	3,799.7
INFORMATION TECHNOLOGY	Axicom Pty Ltd	Australia Tower Network Pty Ltd	Macquarie Infrastructure and Real Assets	100	3,580.0
REAL ESTATE	ALE Property Group	Host-Plus Pty. Limited; Charter Hall Long WALE REIT	Caledonia (Private) Investments Pty Limited	100	2,983.6
INDUSTRIALS	Bingo Industries Limited	CPE Capital Pty. Ltd; Macquarie Infrastructure and Real Assets	Shareholders (public company, delisted)	100	2,668.2
ENERGY	BHP Mitsui Coal Pty Ltd	Stanmore Resources Limited	BHP Minerals Pty Ltd	80	1,908.0
TELECOMMUNICATIONS SERVICES	Australia Tower Network Pty Ltd	AS Infra Tower Pty Ltd	Singtel ATN Pte. Ltd.	70	1,900.0
MATERIALS	Galaxy Resources Limited	Orocobre Limited (aka: Allkem Limited)	Shareholders (public company, delisted)	100	1,840.4
FINANCIALS	Colonial First State Investments Limited	KKR & Co. Inc.	Commonwealth Bank of Australia	55	1,700.0
REAL ESTATE	Moorebank Logistics Park Property Assets	LOGOS Property Pty Ltd	Qube Holdings Limited	100	1,672.0

SME DEALS

Whilst the financial metrics of most SME transactions are not publicly disclosed, below are SME transactions disclosing the transaction value.

SECTOR	TARGET	ACQUIRER	STAKE ACQUIRED (%)	TRANSACTION VALUE ($ MILLIONS)	IMPLIED EV/EBITDA MULTIPLE
CONSUMER DISCRETIONARY	Truckzone Pty Ltd (& related entities)	MaxiPARTS Pty Ltd.	100	18.3	48.0
HEALTHCARE	1300SMILES Limited	Abano Healthcare Group Limited	84	137.4	44.3
CONSUMER DISCRETIONARY	Cashrewards Limited	1835i Ventures	81	75.9	22.1
CONSUMER DISCRETIONARY	MAXTRAX Pty Ltd	Oscar Aluminium Pty Ltd	100	54.0	21.0
INDUSTRIALS	United Home & Trade Pty Limited	Big River Industries Limited	100	10.5	20.0
INFORMATION TECHNOLOGY	Load Point Pty Ltd	Freightlancer Pty Limited	100	7.7	10.1

HLB'S PUBLICALLY ANNOUNCED TRANSACTIONS FY2022

During FY2022, HLB assisted many stakeholders achieve their transaction goals by providing M&A advisory services, due diligence reviews, valuations and general transaction advice. Indications are that deal activity remains strong and while the effects of the COVID-19 pandemic are still being felt and in light of changes in the macroeconomic environment.

It will be interesting to see if this trend continues under tighter fiscal and monetary policies and with ongoing global supply chain issues.

Summarised below is a selection of completed, publicly announced engagements HLB was involved in during FY2022:

A. HARTRODT AUSTRALIA PTY LTD

SEPTEMBER 2021
TRANSACTION ADVISOR

Acquisition of O.T.S Australia and O.T.S Plus

NAKED BRAND GROUP

DECEMBER 2021
TRANSACTION ADVISOR

Merger with Cenntro Automotive Group

HOME INSTEAD

DECEMBER 2021
TRANSACTION ADVISOR

Sale of franchise

DIGISTOR

JANUARY 2022
TRANSACTION ADVISOR

Sale of business to Videocraft

HLB'S OTHER TRANSACTIONS

HLB is actively involved in the sale processes of a number of businesses in the retail, media, engineering, information technology, freight forwarding and industrials sectors.

SALES PROCESS

- Retail
- Media
- Engineering
- Information Technology
- Freight Forwarding
- Industrials

DUE DILIGENCE

- Freight Forwarding
- Media
- Industrials
- Manufacturing
- Wholesaling businesses

VALUATION

- Clean energy
- Science & technology
- Retail
- Software
- Construction

During FY2022, HLB completed numerous due diligence reviews for companies operating freight forwarding, media, industrials, manufacturing and wholesaling businesses. While the appetite for acquisitions remains strong in the market, we observed a higher proportion of transactions stalling in the initial offer and diligence phases, due to the ever-changing industry and macroeconomic environment, differences in perception of risks as well as lack of thought or process when it comes to agreeing key deal terms up front. In terms of the latter, we have seen cases where buyers were making unsolicited approaches to companies that are not transaction ready. As always, vendors who have a succession plan in place which clearly defines potential timing of exits and getting the business "transaction ready" beforehand will be better prepared if approached for sale, have realistic expectations and achieve optimum outcomes.

FY2022 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 in new shareholders or allow existing shareholders to exit. It was interesting to explore how the ongoing effects of COVID-19 impacted businesses differently, depending on factors such as industry and global reach, and how the shift in economic conditions, particularly in Q4 FY2022, has impacted discount rates. We continue to see some businesses experience lower valuations while others were impacted neutrally by the pandemic and other economic factors, and in some instances even accelerated growth to record significantly higher values.

HLB ADVISORY TEAM

CONTACT

If you are thinking about writing the next chapter for your business, such as growth, acquisition, restructure or exit planning:

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IS YOUR BUSINESS READY?

The HLB Mann Judd Advisory team invites you to get your business exit ready with our complimentary Exit Readiness Assessment.

Our rating methodology highlights the strengths and weaknesses in your business that impact its valuation and what you need to improve before you start planning your exit strategy.

The modules included in the assessment are:

- Profitability
- Transferability
- Sustainability
- Visibility
- Valuation

Assessment process

We will initially review selected background information on your business and meet with you to explore your current business operations and all aspects that could maximise the value of your business.

Deliverables

Once the assessment is complete, we will provide you with your Exit Readiness Report, which includes:

- Your Exit Readiness Rating
- Summary of Key Financial Indicators
- Indicative valuation range for your business based on its current status
- Recommendations to maximise the value of your business and the return on your investment

ABOUT HLB MANN JUDD

HLB Mann Judd is a leading award-winning advisory and chartered accounting firm. Mann Judd was formed in 1970 and through natural growth the business has become one of Sydney's highly regarded "people-sized" accounting practices. In 1998 Mann Judd firms were re-badged as HLB Mann Judd in recognition of our affiliation with the HLB International global network.

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 1030 offices in 157 countries), our clients also have access to worldwide expertise.

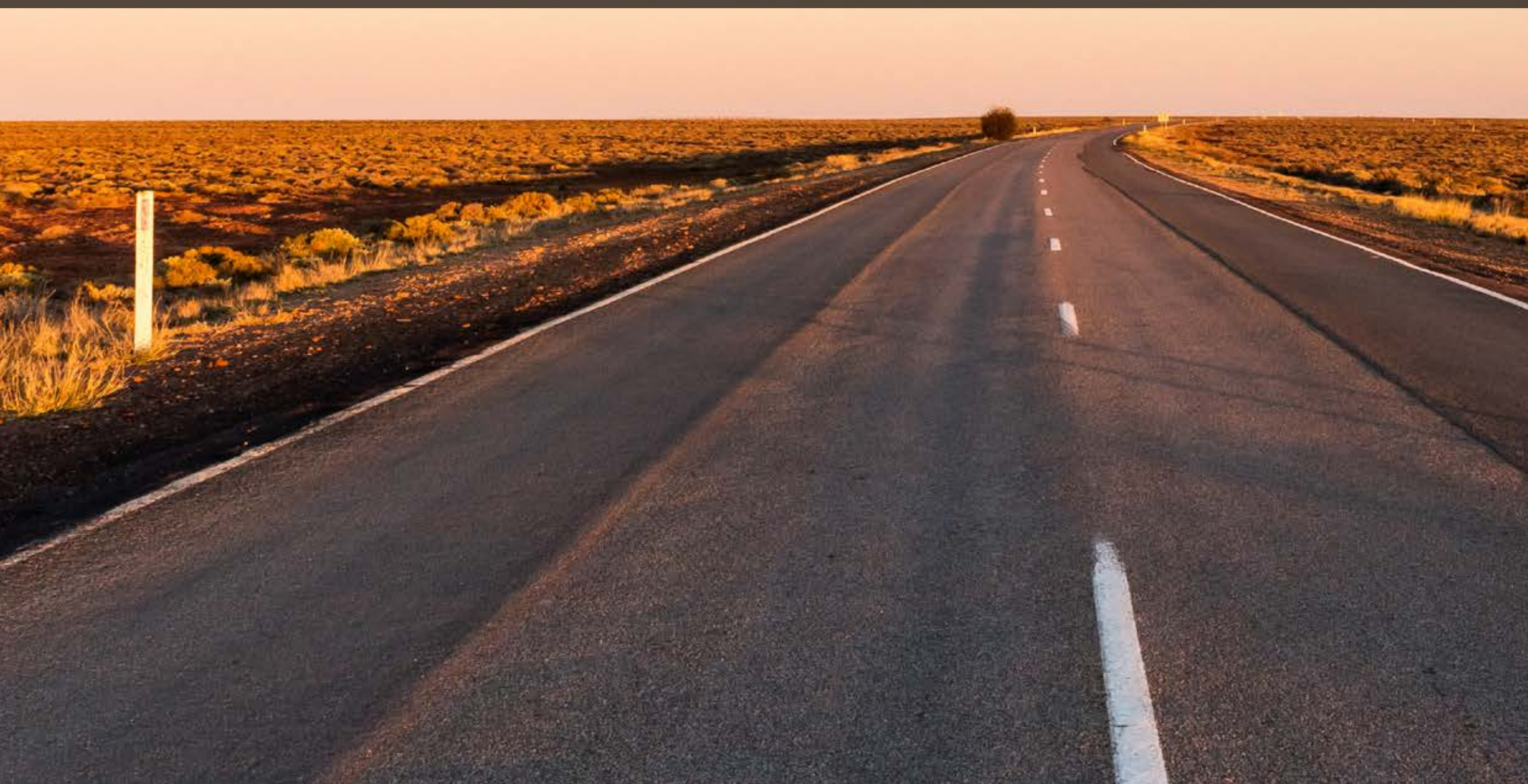
The Sydney firm has over 31 Partners and Directors and over 160 staff.

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.

Whether you are a Corporate, Private or Family Business or an Individual, HLB Mann Judd Sydney can provide you with a comprehensive range of advisory and financial services in addition to the audit, accounting and taxation services that are central to our practice.

Our core services are:

- Audit and Assurance
- Business Advisory
- Corporate Advisory
- Restructuring & Risk Advisory
- Tax Consultancy & Compliance
- Wealth Management



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