

MERGERS & ACQUISITIONS

ANNUAL REPORT
FY2023 AND BEYOND



HLB.COM.AU

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INTRODUCTION

The financial year ending 30 June 2023 (“FY2023”) was a somewhat subdued year for mergers and acquisitions in the Australian mid-market segment.

The start of the year saw a steady flow of M&A activity through Q1 to Q2 of FY2023. However, the last two quarters of FY2023 saw a decline in deal volume, largely due to the high interest rate and inflationary environment, which cooled acquirer and debt financing appetites. This has contributed to a greater bid-ask spread between buyers and sellers, resulting in some transactions being put on hold until markets are deemed to be more favourable.

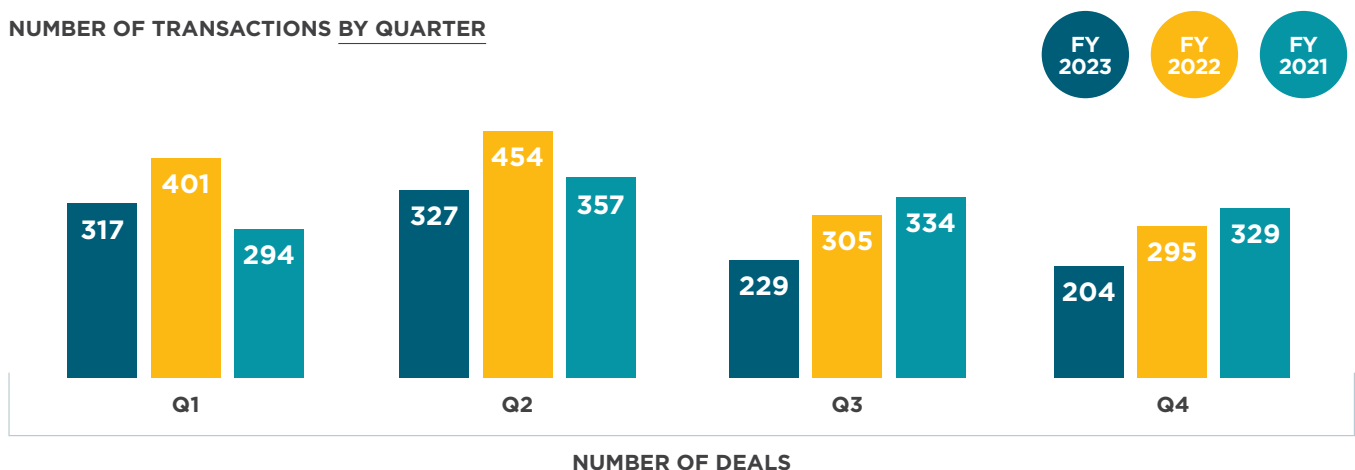
This report analyses the annual deal volume, pricing, and industries, as well as an overview of deal activity in the SME segment. The data is sourced from S&P Capital IQ and publicly available records. The report also highlights some of the transactions that HLB Mann Judd has supported.

NUMBER OF TRANSACTIONS

There were 1,077 deals completed in FY2023, a decrease from 1,455 and 1,314 in FY2022 and FY2021 respectively. The graph below displays deal activities by quarter, with Q2 resulting in the highest number of deals in FY2023, likely due to the push to complete transactions prior to the end of the 2022 calendar year. This activity is consistent with previous years. The reduced number of deals across all quarters compared to FY2022 indicates that

the deployment of capital has become restricted. Investors are adopting a more cautious approach in meeting vendor pricing expectations, due to increasing interest rates, an inflationary environment and ongoing geopolitical factors. As a result, some transactions have been put on hold with business operators considering options to extend their operating cash runway and delay transactions until markets are more favourable.

NUMBER OF TRANSACTIONS BY QUARTER

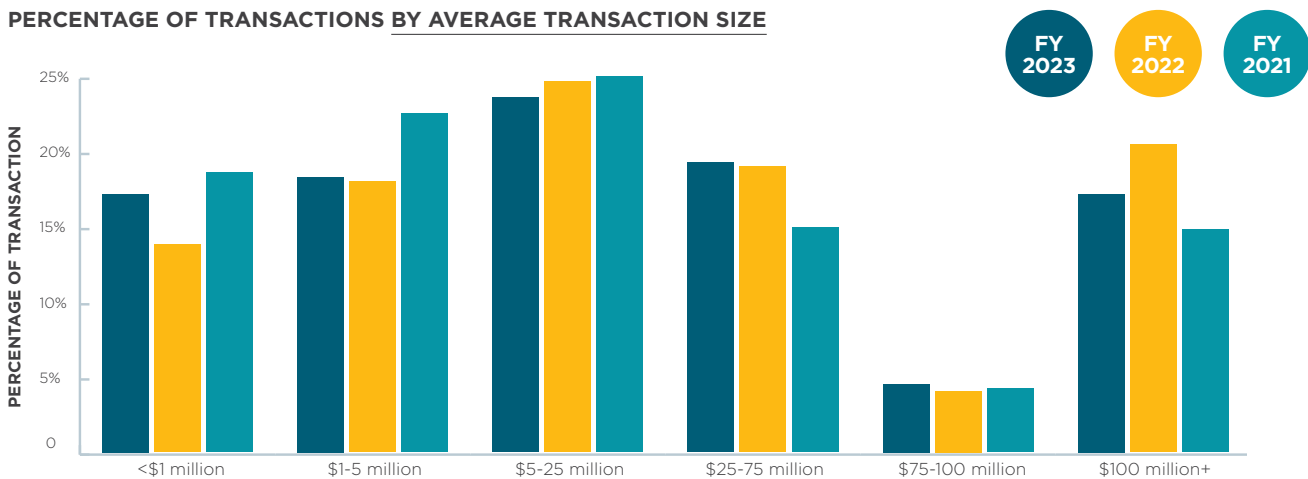


TRANSACTION VALUES

The average transaction value decreased from \$121.30 million in FY2022 to \$92.97 million in FY2023, however, this value remains higher than the average transaction size of \$80.38 million in FY2021.

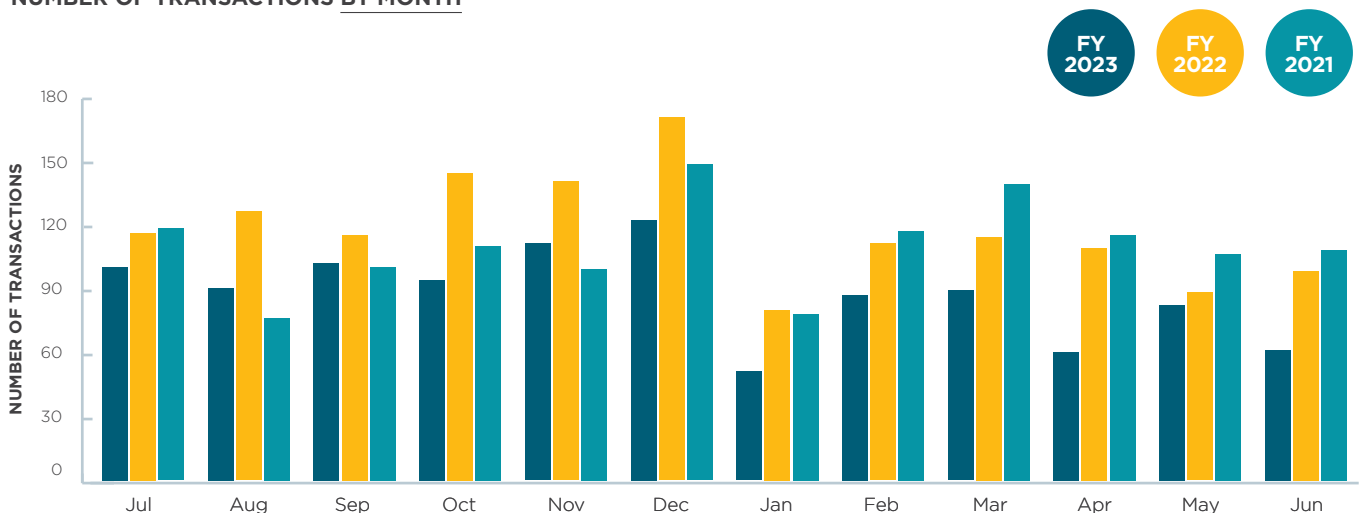
As shown in the graph below, the decrease in the average deal size compared to FY2022 is driven by a redistribution in the size of deals, with less deals in FY2023 above \$100 million and more deals completed below \$1 million. The increased cost of debt and stricter lending criteria from financiers, was predicted to have a negative impact on the assessed commercial viability of some deal structures. These factors are now impacting the expected valuation multiples of businesses seeking capital through either a capital raise or sale, resulting in valuation expectation gaps between existing investors and new capital providers.

PERCENTAGE OF TRANSACTIONS BY AVERAGE TRANSACTION SIZE



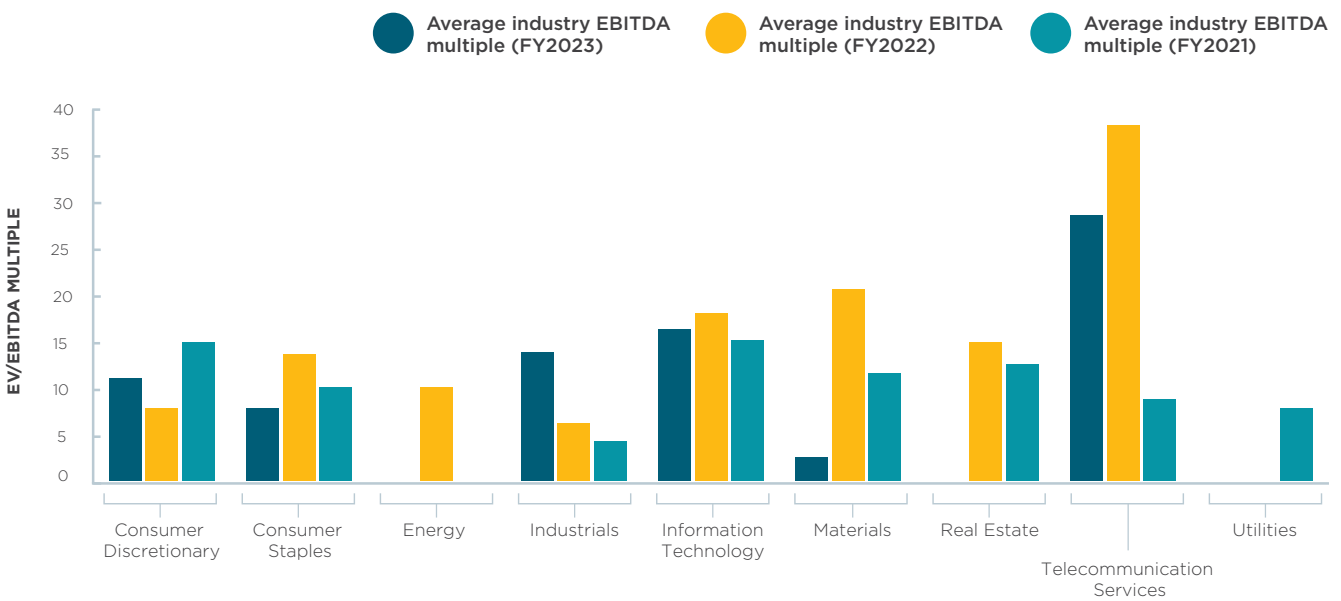
When analysing transactions on a monthly basis, the number of transactions completed each month appears lower, on average, when comparing FY2023 to FY2022 and H2 of FY2021. One factor contributing to this trend is the decline in the availability of cheap capital due to the rapid shift from expansionary to contractionary fiscal and monetary policies.

NUMBER OF TRANSACTIONS BY MONTH



VALUATION MULTIPLES

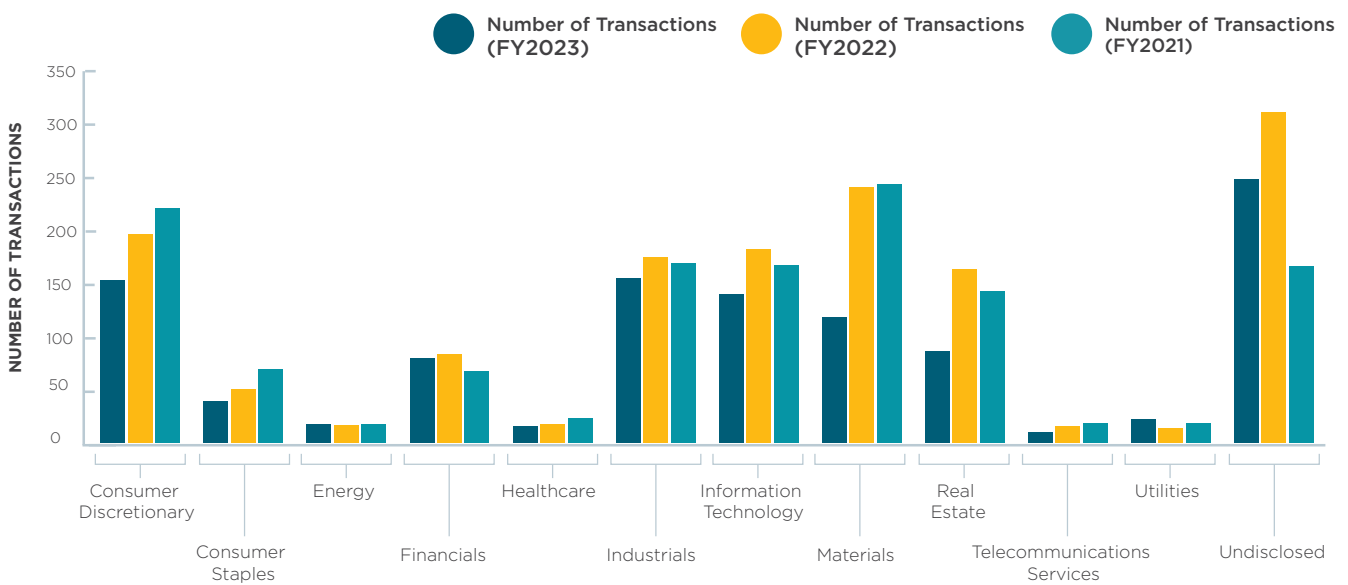
The consumer staples, information technology, materials and telecommunication services industries have seen a decrease in the average transaction valuation multiple in FY2023 compared to FY2022. Whereas, the consumer discretionary and industrials industries average transaction valuation multiple increased in FY2023. The overall average multiple achieved for completed deals decreased from 13.9x in FY2022 to 10.3x in FY2023, which is in line with the average multiple for deals in FY2021 of 10.7x. This reflects the increase in risk perceived by purchasers to a level similar to the early post-pandemic period, however, we note this may change in early FY2024 flowing on from the macroeconomic environment shifts observed in the second half of FY2023.



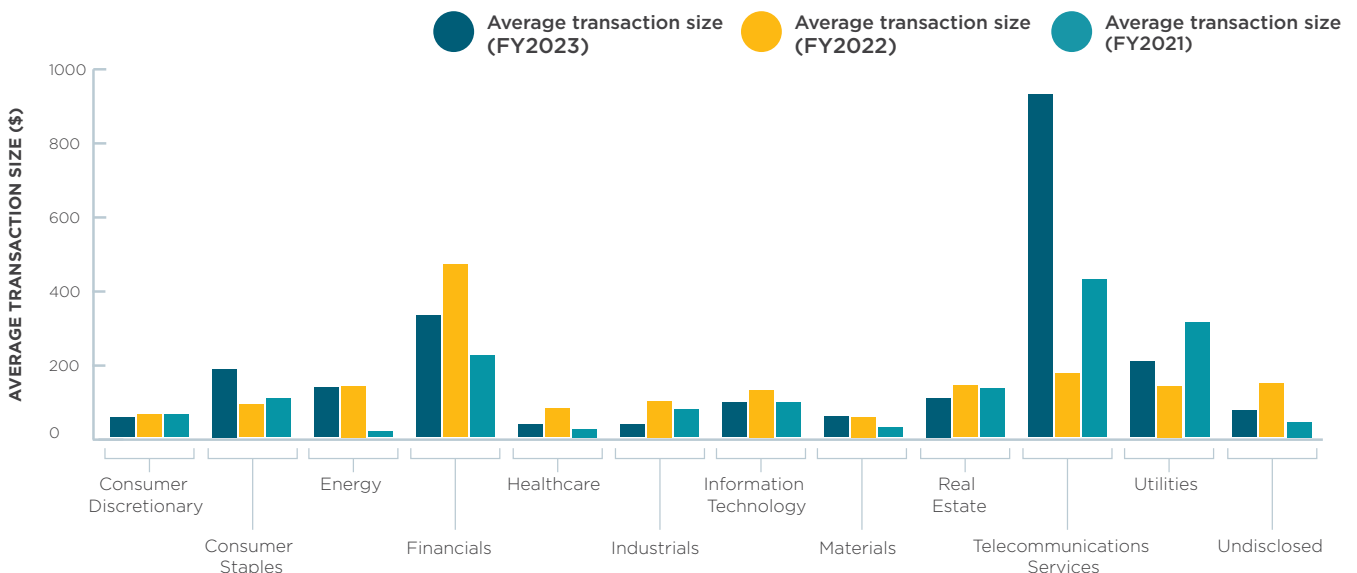
INDUSTRY ANALYSIS

The number of deals across all industry groups (except utilities) in FY2023 was lower than in FY2022. The average observed transaction sizes were higher in the telecommunication services, consumer staples and utilities industries in FY2023 compared to FY2022. This suggests these industries have been more resilient to the high inflation and interest rate environment impacting the economy. Conversely, the average transaction sizes are lower in the industrials, healthcare and financials industries in FY2023 compared to FY2022.

NUMBER OF TRANSACTIONS BY INDUSTRY



AVERAGE TRANSACTION SIZE BY INDUSTRY



MAJOR DEALS

The largest observed deals by transaction value in FY2023 were:

SECTOR	TARGET	ACQUIRER	SELLER	STAKE ACQUIRED (%)	TRANSACTION VALUE (\$ MILLIONS)
TELECOMMUNICATION SERVICES	Uniti Group Limited	Brookfield Asset Management Inc.; HRL Morrison & Co Limited; and Nt-Comnwlth Super Corp	Shareholders (public company delisted)	100	3,638.2
FINANCIALS	Pendal Group Limited	Perpetual Limited	Shareholders (public company delisted)	100	2,687.6
INDUSTRIALS	One Rail Australia Holdings Pty Ltd	Aurizon Holdings Limited	PGGM; Macquarie Infrastructure and Real Assets	100	2,350.0
REAL ESTATE	Irongate Group	PGGM; Charter Hall Group	360 Capital Group Limited; 360 Capital REIT	100	1,699.5
CONSUMER STAPLES	Tassal Group Limited	Aquaculture Australia Company Pty Ltd	Shareholders (Public company, delisted)	100	1,678.4
MATERIALS	Cobar Management Pty. Ltd.	Metals Acquisition Limited	Glencore Operations Australia Pty Limited	100	1,658.2
INFORMATION TECHNOLOGY	Inetum SA	Bain Capital Private Equity, LP; NB Renaissance Partners	Mannai Corporation Q.P.S.C.	99	1,650.4
INFORMATION TECHNOLOGY	Nearmap Ltd	Thoma Bravo, L.P.	Shareholders (Public company, delisted)	100	1,061.1
REAL ESTATE	Stockland Retirement Pty Limited	EQT Partners AB; EQT Infrastructure V	Stockland	100	987.0
INDUSTRIALS	East Coast Rail (ECR) business of One Rail Australia	Magnetic Rail Group Pty Ltd	One Rail Australia Holdings Pty Ltd	100	925.0
FINANCIALS	TAL Life Insurance Services Limited	TAL Dai-ichi Life Australia Pty Limited	Westpac Financial Services Group Limited	100	900.0
UTILITIES	Portfolio of Australian and Southeast Asian energy assets of Nexif Energy	RH International (Singapore) Corporation Pte. Ltd	Denham Capital Management LP; Nexif Energy Management Pte. Ltd.	100	874.6

SME DEALS

Whilst the financial metrics for many SME transactions are not publicly disclosed, below is a selection of publicly available SME transactions. SME deals have been defined as transactions where the acquisition targets' revenue is between \$20 million and \$50 million.

REVENUE (\$ MILLIONS)	SECTOR	TARGET	ACQUIRER	STAKE ACQUIRED (%)	TRANSACTION VALUE (\$ MILLIONS)	IMPLIED EV/EBITDA MULTIPLE
50.0	INDUSTRIALS	Flynt Worldwide Pty Limited	Vertua Limited	100	6.5	2.7
43.0	INDUSTRIALS	Air Affairs (Australia) Pty. Ltd.	QinetiQ Group plc	100	53.0	10.6
36.3	INDUSTRIALS	HRL Holdings Limited	Australian Laboratory Services Pty. Ltd.	87.1	36.3	NA
34.6	CONSUMER DISCRETIONARY	Cheap THRILLS Cycles Pty. Ltd.	Universal Store Holdings Limited	100	48.8	6.4
33.9	INFORMATION TECHNOLOGY	MSL Solutions Limited	Pemba Capital Partners Pty Limited	100	121.8	30.5
29.0	INDUSTRIALS	Brightflow Enterprises Pty Ltd	Silk Logistics Holdings Limited	31.4	29.0	NA
26.2	HEALTHCARE	Vita Group Limited	Practice Management Pty Ltd	100	34.6	8.7

HLB'S TRANSACTIONS INVOLVEMENT

Throughout the year, HLB assisted many stakeholders achieve their transaction goals by providing M&A advisory services, due diligence reviews, valuations and general transaction advice throughout the year. We continue to see strong M&A interest in specific industries, while the effects of increasing interest rates, inflation, possible recession and the ongoing geopolitical factors impact the broader investment

landscape. Businesses attracting interest tend to focus on addressing a niche (such as automation) while simultaneously demonstrating sustainable net earnings growth and positive cashflows, which is becoming a greater focus for investors. This activity indicates that investors are more cautious when deploying capital.

Summarised below is a selection of completed, publicly announced engagements HLB supported during FY2023:

LA GROUP	SUMMIT INNOVATIONS	CVC LIMITED	HIGGOVALE HOLDINGS	SIMPLYAI
				
SEPTEMBER 2022 TRANSACTION ADVISOR	OCTOBER 2022 TRANSACTION ADVISOR	MARCH 2023 INVESTIGATING ACCOUNTANT	JANUARY 2023 TRANSACTION ADVISOR	MAY 2023 TRANSACTION ADVISOR
Acquisition of SMS Finance	Sale of business to DTIQ	Debt issue	Sale of International Fashion Brands to SMCP	Sale of business to Liverpool Partners

HLB is currently involved in the sale process of a number of businesses in the technology, transport, waste, manufacturing, freight forwarding and industrials sectors.

During FY2023, HLB completed numerous acquisition due diligence reviews and 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. This is likely due to the ever-changing industry and macroeconomic environments, differences in perception of risk, and lack of foresight to agree key deal terms upfront.

We continue to observe cases where buyers make unsolicited approaches to businesses that are not transaction ready. Vendors with an established succession plan, which contemplates the potential of exits and has their business "transaction ready", will be better prepared if approached for a sale, and ultimately achieve optimum outcomes.

FY2023 also saw many valuation engagements delivered for financial reporting and tax purposes. Valuations for tax purposes are typically sought to support an internal restructure, such as facilitating investment by shareholders or supporting existing shareholders to exit. We have observed that the inflationary economic environment and increasing interest rates has impacted discount rates used in valuations. In particular, businesses holding investments in other businesses or have intangible assets arising from previous acquisitions have had to carefully consider indicators of impairment in carrying values compared to previous years.



OUTLOOK >>>

Based on our involvement in deals and discussions with clients, we see a sustained level of deal appetite in the Australian market for high quality assets.

It is expected that a future trend of M&A activity will see a focus on enhanced sustainability, putting a substantial increased attention on the environmental, social and governance (“ESG”) implication of target businesses. However, growing concerns over economic uncertainty, high inflation, the cost of debt and global political tensions may suppress the overall M&A activity in the next financial year. Indeed, HLB Mann Judd’s 2023 IPO Watch Mid-Year Report, suggested a shift in investor sentiment had already resulted in more difficult conditions for fundraising. Nevertheless, there remains an abundance of cash held by private investors and others to deploy, indicating investor appetite may remain strong for strategic acquisitions.

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

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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 1,128 offices in 156 countries), our clients also have access to worldwide expertise.

The Sydney firm has over 31 Partners and Directors and over 180 staff.

We are a viable alternative to the Big 4 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 core to our practice.

Our core services are:

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

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Network of the Year



INTERNATIONAL ACCOUNTING BULLETIN

AT A GLANCE



156
Countries



40,831
People



1,128
Offices



10
Global Ranking



\$4.08b
Global combined revenue



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