APAC MID-MARKET M&A REVIEW Q1 | 2023 FINANCIAL YEAR

OVERVIEW

As October commences marking the start of the new Q2 FY23, Moore Australia takes the opportunity to review the mid-market M&A activity for Q1 FY23. The RBA continued to be the dominating influence over investor decision making in Q1 FY23. However, unlike large capitalisation M&A, the IPO market and leveraged finance market - interest rate hikes proved to have **minimal impact** to mid-market M&A. The rising cost of debt, an escalating war in Europe and inflation significantly above the 2-3% target, have also been unable to curtail enthusiasm for mid-market M&A with another strong quarter of performance.

While last year companies with strong revenue growth forecasts (notably technology) were purchased at a premium, a different type of company is in vogue now. In Moore Australia's experience, businesses with strong cash flows and a record of profitability appear much more favourable to acquirers, as investors appear to take a more 'risk-off' approach in the current macro environment. Furthermore opportunistic **'bargain-hunting' M&A** is on the rise with companies aiming to acquire firms at a reduced value. Smaller businesses are also increasing their investigation into mergers with the intent to improve balance sheets and runway as equity capital markets remain subdued.

SECTOR ANALYSIS

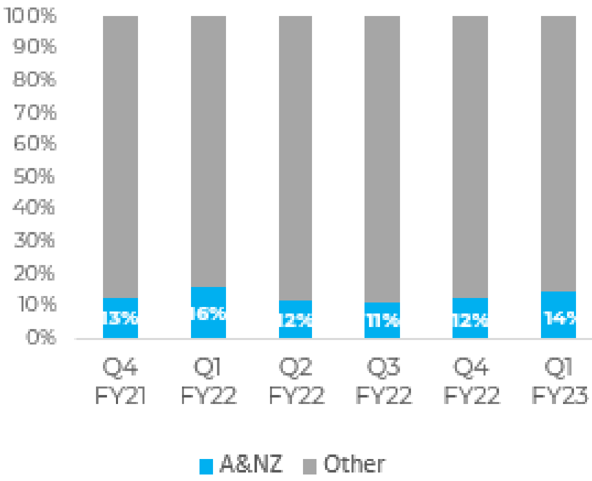
Bucking the trend of other global markets (ECM in particular), the quarterly performance for Australia and New Zealand mid-market M&A was very positive. There were **184 deals** inked in Q1 FY23 compared to 152 the previous quarter and the highest since Q1FY22 highlighting the resilience of the ANZ M&A market. We saw an average deal value of $47m which is down $3m from the previous quarter but generally in line with recent history.

Turning to performance by sector, IT had once again the most number of deals (40) followed by services (31) and medical (16). Construction has seen deal value fall significantly quarter on quarter from $30m average to just $18m highlighting the ongoing challenges in this space as key input prices rise making trading unprofitable. IT has performed strongly despite negative external factors and shifting confidence in space and notably as ECM dries up firms (IT in particular) are looking to combine to realise cost synergies and reduce time to profitability.

AUSTRALIA AND NEW ZEALAND DEAL ACTIVITY VS WORLD – TRANSACTION VOLUME

In terms of Australia and New Zealand's relative importance in the mid-market M&A sphere, Q1FY23 has seen a continuation of the previous trend. ANZ has once again increased their hold rising to 14% as a percent of total transaction volume compared to 12% the previous quarter.

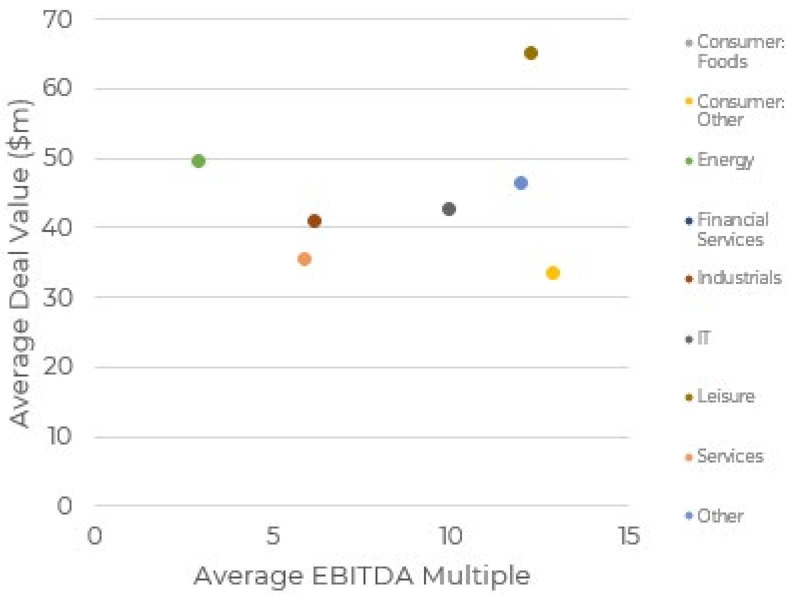
Moore Australia believes this to be due to an increased appetite for Trans-Tasman deal making as firms readjust to a setting without COVID travel restrictions severely hampering deal flow.



APAC INDUSTRY EBITDA MULTIPLES

A key indicator of industry confidence is the multiples at which buyers are willing to pay. From the available EBITDA multiples extracted from Mergermarket, the two sectors with the most activity, IT and Services, traded at average multiples of **10x** and **6x** respectively. The multiples for IT and services have remained relatively stable on last quarter.

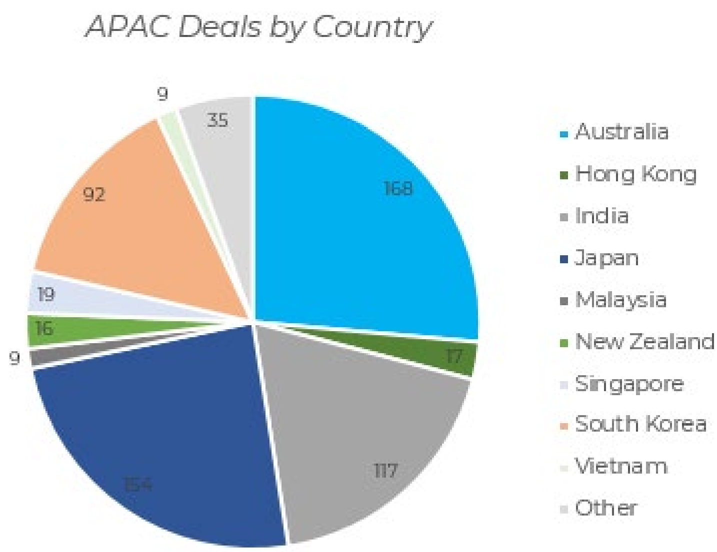
We do caution that when using transactions multiples on a comparable basis, both sample size and deal specific factors should be considered. For example, a public company may trade higher due to their access to capital or lack of dependency on key personnel.



APAC REGIONAL DEAL COUNT

The strength in mid-market M&A seen in Australia and New Zealand was replicated across the APAC region with 636 deals completed across the first quarter. Although smaller than last quarter's 678, the deal count still represents a historically strong showing and an appetite to transact. Turning to average deal size they have fallen by $3m to **$43m** relative to the $46m last quarter. However, this is once again in line with historical averages.

Australia indicated a strong willingness for M&A with **168** deals a significant rise from 124 the previous quarter. Elsewhere, Japan performed well with 154 deals also increasing on the previous quarter's 151. Otherwise India was the third major influence with 117 deals completed in Q1FY23.



MAJOR DEAL REVIEW: MID-MARKET HIGHLIGHTS

Moore Australia consistently play a key role in the AUS & NZ mid-market.

In the first quarter of FY23, we provided transaction advisory services to T.C Boxes Pty Ltd ("T.C Boxes"), with their successful partial acquisition by Gresham Capital Partners ("GCP"). T.C Boxes – a leading motor vehicle accessories retailer, providing safe, secure and reliable storage solutions and accessories for utility vehicles. The Company sells and installs over 300 products for their customers, completely customising vehicles for specific needs. GCP's investment will support T.C Boxes interstate expansion and enable further product development.

NOTES:

- Deals with value under $150M were considered
- Deal values and multiples are based on data available only through Acuris Mergermarket; Accessed on 6 October 2022
- Not all transaction's deal value are available due to private nature of some transactions where deal size is not revealed
- This report is based on the availability of transaction metrics
- Sub-sectors have been allocated towards larger sectors
- Deal metrics for the APAC region are excluding mainland China

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