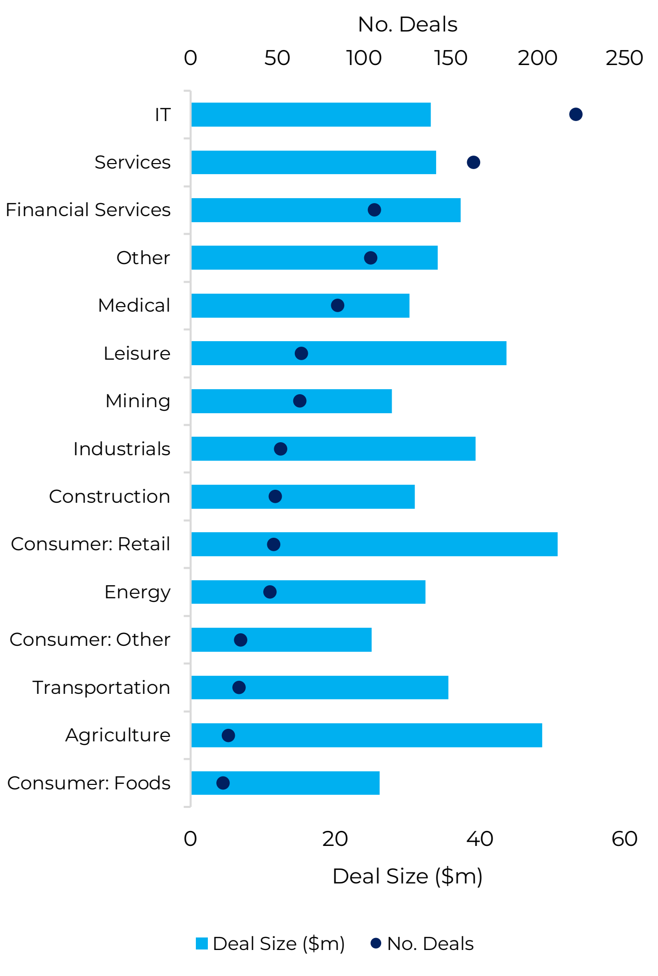
APAC MID-MARKET M&A REPORT 2023

Overview – Mid-market M&A remains strong despite economic volatility

As we enter the 2024 financial year, Moore Australia takes the opportunity to review the mid-market M&A activity for FY23. In what has been one of the most turbulent years in recent times, the Australian M&A market has once again shown its resilience to a wide array of economic pressures. A strong run of low inflation and cost of debt that carried the economy through much of COVID-19 quickly peeled away, leaving highly leveraged companies vulnerable to downwards valuations. Adding to this was the backdrop of the Ukraine war, which saw the supply of key industrial products highly disrupted. All of these events have put major pressure on dealmakers over the past year, with confidence in the large-scale M&A and ECM space decreasing sharply as investors seek greater certainty.

However, there have still been many positive factors which have kept the Australian (and wider APAC) M&A market ticking at a strong pace. The final reopening of borders in much of Asia following COVID-19 has brought a renewed dealmaking appetite from overseas investors. Furthermore, with inflation and interest rates finally steadying after many quarters of increases, private equity funds will be looking to make riskier investments with high amounts of dry powder on their balance sheets. Many profitable businesses with strong balance sheets will also continue to seek bargain deals that will provide them with the necessary human resources and technical know-how to succeed as market conditions improve. From a mid-market perspective, Moore Australia has witnessed a preference for businesses with strong cash flows and steady profit margins from prospective acquirers.

Local mid-market M&A activity remains strong across the board, with IT and Services dominating by volume



Many of the themes that influenced deal making activity towards the end of FY22 have shaped the local market in FY23, with rising inflation, interest rates and cost of living and remaining front of mind.

Thus, the Australia and New Zealand mid-market space has remained resilient, with a total of **1,100 deals** announced in FY23, almost matching the 1,183 deals in FY22 and bucking the trend seen in larger-scale M&A and ECM. An average deal value of **$34m** is a slight decrease from $38m in the last year, as companies have adjusted their valuations following rapid increases in the cost of debt. It is noted that of the 1,100 deals announced in the quarter, only 941 of them have been listed as completed due to delays in deal reporting.

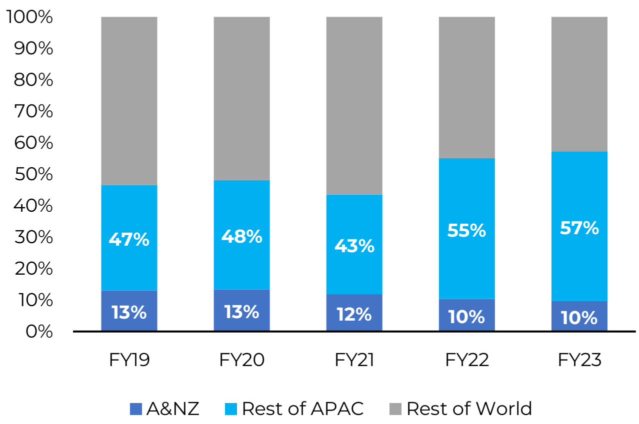
Turning to performance by sector, IT saw by far the greatest number of deals (222) followed by services (163) and financial services (106). Large-scale revaluations in the technology sector have accelerated many acquisitions, and we expect this trend to continue in the short-medium term as the sector rebounds. Services also continued to be a large trend in Australia, with many businesses choosing to strategically consolidate their operations to save costs and reduce the need for layoffs. This is particularly so in the financial services space, where increased regulatory requirements and more volatile market conditions present opportunities for synergistic cost sharing.

Japan leads the APAC sector in deal activity as COVID-19 restrictions ease

	Japan	**Australia & NZ**	India	South Korea	Singapore	Indonesia	Vietnam	Other	**Grand Total**
IT	1,203	222	277	135	97	27	11	48	**2,020**
Other	338	104	139	116	29	18	25	50	**819**
Services	285	163	92	33	34	8	11	31	**657**
Industrials	245	52	56	106	20	6	2	20	**507**
Financial Services	96	106	69	56	16	17	6	46	**412**
Medical	173	85	69	23	14	6	2	22	**394**
Construction	161	49	29	17	7	2	11	16	**292**
Leisure	133	64	17	24	6	4	6	23	**277**
Energy	50	46	36	19	7	6	15	32	**211**
Consumer: Retail	106	48	20	18	3	2	4	7	**208**
Consumer: Other	88	29	24	33	4	3	6	11	**198**
Consumer: Foods	58	19	30	15	2	3	5	13	**145**
Transportation	41	28	27	14	8	6	5	14	**143**
Mining	2	63	5	0	1	7	0	8	**86**
Agriculture	27	22	6	0	2	3	6	1	**67**
Grand Total	**3,006**	**1,100**	**896**	**609**	**250**	**118**	**115**	**342**	**6,436**

Deal-making appetite across the APAC region strengthened slightly in FY23, with **6,436** deals announced compared to 6,168 in FY22. This figure demonstrates the robustness of the APAC M&A market, further propelled by the final easing of COVID-19 border restrictions across much of the region. Average deal size however has decreased with valuations being driven down, from $33m in FY22 to **$26m** in FY23.

M&A activity in Japan increased with 3,006 deals in FY23 compared to 2,438 in the previous year, dominating the APAC region. Australia and New Zealand's economic resilience allowed it to overtake India in dealmaking activity for the past year, demonstrating the relative strength and versatility in local markets.



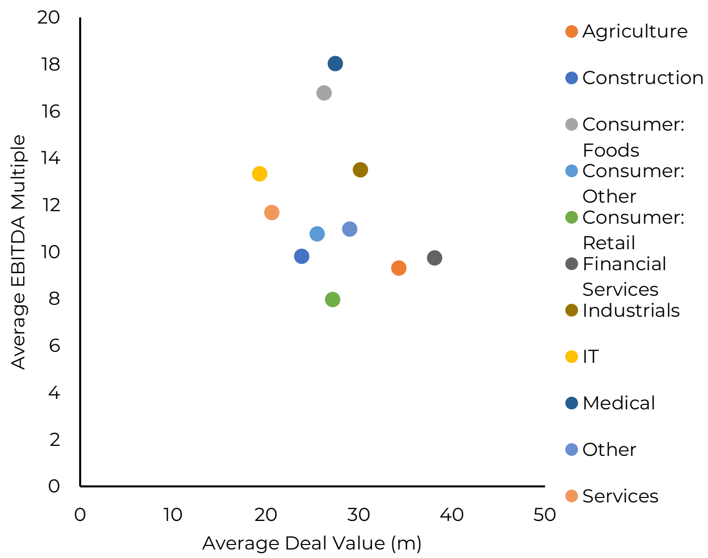
In terms of Australia and New Zealand's relative importance in the mid-market M&A sphere, FY23 remained steady on FY22 at 10% of world transaction volume. APAC transaction volume has also slightly increased to 67% of world volume compared to 65% in the last quarter. This continues the upwards trend set in FY22 of the APAC region leading the way in mid-market M&A and is expected the maintain this position throughout the next year.

MAV believes this large growth in market share is attributable to an extremely strong rebound in dealmaking activity following years of ongoing COVID-19 travel restrictions. Furthermore, markets such as Japan have significant amounts of capital ready to deploy, particularly on major infrastructure investments. Short-term inflationary pressures and record low employment will continue to fuel caution amongst Australian dealmakers, however.

Multiples continue to fall as high rates bite in the services sectors

A key indicator of industry confidence is the multiples at which buyers are willing to pay. From the available EBITDA multiples extracted on Mergermarket, the two sectors with the most activity, IT and Services, traded at average multiples of **13x** and **12x** respectively. These multiples are similar compared to FY22, with retail and construction industry multiples taking larger hits due to high cost of input pressures.

We do caution that when using transaction 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.



Major Deal Review: Mid-Market Highlights

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

- In September 2022, we provided transaction advisory services to T.C Boxes Pty Ltd with their successful partial acquisition by Gresham Capital Partners.
- In November 2022, we provided strategic and transaction advisory services to RPO Pty Ltd with their successful acquisition of Wyse Finance Pty Ltd.
- In May 2023, we provided lead advisory services to Macsim Fastening Systems Pty Ltd on their strategic investment partnership with a consortium of suppliers.

Notes:

- Deals with value under $150M were considered
- Deal values and multiples are based on data available only through Acuris Mergermarket; Accessed on 11/07/2023
- Not all transaction's deal value 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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