# APAC MID-MARKET M&A REPORT Q1 | 2024

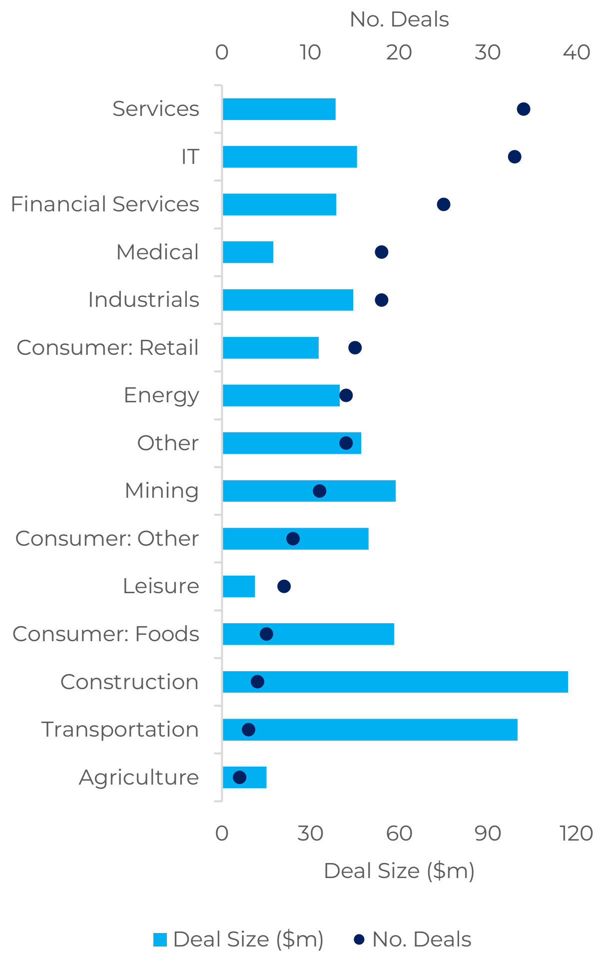
## Overview – Dealmakers fail to reach heights of last year in midst of debt roadblock

As we enter the second quarter of the 2024 financial year, Moore Australia takes the opportunity to review the mid-market M&A activity for Q1 FY24. In what is typically one of the stronger quarters of the year, M&A activity has dampened significantly in the opening quarter of FY24 relative to prior Q1's. Sustained increases in the cost of debt and stricter lending covenants from debt financiers are driving the slowdown as debt backed deals fail to get over the line. With the RBA yet to show any sign of rate cuts in the near term, the threat of higher-for-longer interest rates has also slashed private company valuations in Australia, creating divergence in the price expectations of buyers and sellers and leaving many deals in limbo.

While deal activity was down relative to previous Q1's, transaction volume in Australia & New Zealand was consistent with Q3 & Q4 FY23 as markets adjust to the 'new normal' for inflation and interest rates. M&A players showed a strong appetite for acquiring Services businesses which lead the deal count as the hottest sector in Q1 FY24. The earnings multiples paid for businesses in this sector, which predominately provide people services, also increased as a tight Australian job market forced businesses to look for inorganic ways of accessing the cream of the talent crop.

Across APAC, Japan continued its reign as the driving force of M&A in the region. IT remained the in-demand sector, with both the most deals and highest average multiples as the AI boom of 2023 hit private market valuations.

## Services knocks off IT as the most active local M&A sector, while overall mid-market M&A volume is steady




Australia & New Zealand mid-market deal volumes have remained steady, with a total of **211 deals** announced in Q1 FY24, aligned with the Q4 FY23 count of 208. Average deal values have rebounded up to **$43m** from $34m in the previous quarter as the quantum of smaller deals (<$10m) significantly reduced from 31 to 12, and some larger deals were inked such as Blackbirds partial sale of its stake in Australian tech unicorn Canva worth $150m.

Business in the Services sector drew significant M&A attention in Q1 FY24 with a total of 34 deals announced. Services knocked off IT as the hottest sector for local M&A which followed closely with 33 deals, a title the IT sector has held for several consecutive quarters. Businesses in the Services sector provide people services, and the surge in deal counts from 24 to 33 may be a product of Australia's resilient job market – the unemployment rate is at historically low levels of 3.6% and the war for talent has forced acquirers to look for inorganic solutions to get access to talent. In a similar story, Financial Services deal count increased by 38% on last quarter. Deals in the mining industry also declined by 50% due to a normalisation of the surge of small deals in Q4 FY23 reported in our previous M&A report.

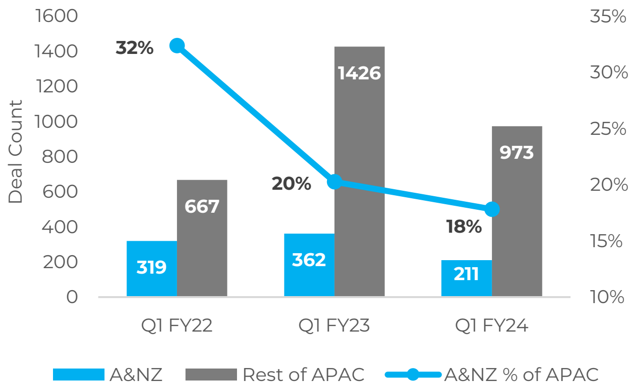
Moore Australia notes that 57 of the 211 deals are yet to be completed at the time of writing due to delays in deal reporting. We have also observed increased volume of divestment and in-specie distribution transactions which are unlikely to be included in the deals data.

## APAC deal count down on previous Q1's and Australia's contribution diminishes

| | Japan | **Australia & NZ** | India | South Korea | Singapore | Indonesia | Malaysia | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| IT | 211 | 33 | 40 | 22 | 13 | 8 | 3 | 9 | **339** |
| Other | 65 | 14 | 15 | 27 | 12 | 2 | 0 | 11 | **146** |
| Services | 69 | 34 | 16 | 11 | 9 | 0 | 2 | 3 | **144** |
| Industrials | 56 | 18 | 15 | 23 | 4 | 1 | 3 | 3 | **123** |
| Financial Services | 21 | 25 | 21 | 13 | 5 | 0 | 2 | 6 | **93** |
| Medical | 26 | 18 | 13 | 5 | 4 | 1 | 1 | 3 | **71** |
| Leisure | 16 | 8 | 5 | 9 | 1 | 0 | 2 | 3 | **44** |
| Consumer: Other | 23 | 7 | 6 | 3 | 0 | 1 | 1 | 3 | **44** |
| Consumer: Retail | 9 | 15 | 4 | 2 | 3 | 0 | 0 | 3 | **36** |
| Construction | 18 | 4 | 3 | 3 | 0 | 0 | 1 | 3 | **32** |
| Energy | 5 | 14 | 1 | 1 | 1 | 3 | 2 | 4 | **31** |
| Transportation | 15 | 3 | 7 | 3 | 2 | 0 | 0 | 0 | **30** |
| Mining | 11 | 5 | 2 | 2 | 0 | 0 | 0 | 0 | **20** |
| Consumer: Foods | 1 | 11 | 1 | 1 | 0 | 2 | 1 | 1 | **18** |
| Agriculture | 4 | 2 | 3 | 0 | 0 | 2 | 2 | 0 | **13** |
| **Total** | **550** | **211** | **152** | **125** | **54** | **20** | **20** | **52** | **1184** |

Deal-making appetite across the APAC region softened for the second consecutive quarter, with **1,184** deals announced in Q1 FY24 compared to last quarter's 1,788. Japan remains the driving force of APAC M&A with 550 deals announced, more than double the 211 deals in A&NZ. Acquirers in APAC continue to show strong appetite for IT businesses with nearly 30% of deals coming from this sector.

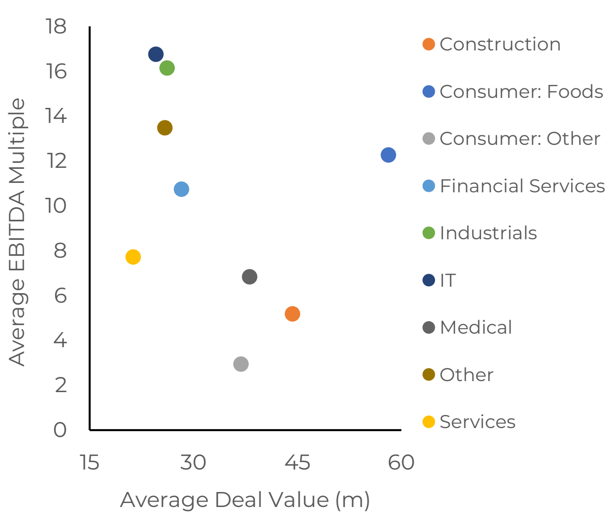
Looking inwards, Australian & NZ M&A activity has fallen significantly short of previous opening quarters. The 211 deals are a **42% decrease** from Q1 FY23, and A&NZ's share of APAC deals has fallen from 32% in Q1 FY22 to just 18% in Q1 FY24. We attribute the slump partially to an abnormal surge in deals in Q1 FY23 that were postponed during COVID-19. We also turn our attention to the RBA's barrage of interest rate rises starting in May 2022 which increased the cost and difficulty to obtain acquisition finance.




For example, based on RBA lending rates in Q1 FY24, a hypothetical business looking to obtain $20m of interest only acquisition finance would need an increase of **77%** in earnings on Q1 FY22 to service the same interest coverage ratio. In other terms, a business with $50m revenue would require an earnings margin of 7% compared to the required 3.9% 2 years ago, just to meet a 2x ICR covenant. This example highlights the significant increase in equity required to bridge funding gaps which not all businesses have access to.

However, as is the theory of supply and demand, with increased rates comes a decline in private company valuations. We also observe that businesses with the ability to obtain finance secured against fixed assets have been affected to a lesser extent by rate rises and are still able to get deals over the line – often at good prices.

## Multiples somewhat rebound as the AI boom of 2023 hits private M&A




A key indicator of industry confidence is the multiples at which buyers are willing to pay. Across the board, EBITDA multiples increased by about 25% on last quarter. The sectors with the most activity, Services and IT, traded at average multiples of **8x** and **17x** respectively. Whilst Services multiples have slightly increased from last quarter, IT multiples have hiked as acquirers pay a heavy premium for technology businesses riding the AI hype, following public market trends with a typical lag.

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.

We provided lead advisory services to Ryans Group on their successful sale to Tasman Logistics Services in Q1 FY24. Ryan's Transport is a family-owned business that has been providing professional transport and storage services in Australia for over 70 years. Moore Australia lent on our extensive experience providing specialist Lead Advisory and Transaction Support to maximise the value realised by shareholders. The transaction joins two highly synergistic businesses and we look forward to continuing to provide expert M&A advice to the transport & logistics sector.

**Notes:**

- Deals with value under $150M were considered;
- Deal values and multiples are based on data available only through Acuris Mergermarket; Accessed on 23/10/2023;
- 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; and
- Deal metrics for the APAC region are excluding mainland China.

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