

Australian mid-market activity

Q4, 2021 Financial Year

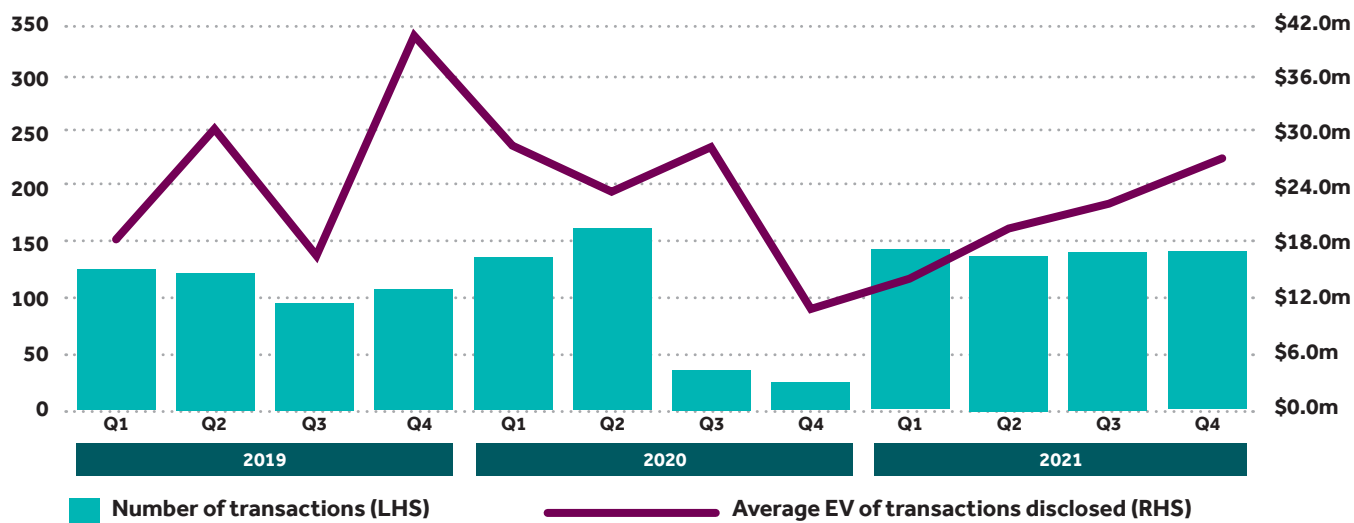
We are happy to present the quarterly instalment of our mid-market M&A overview. The analysis focuses on the current quarter intending to provide you with a brief overview of recent mid-market M&A activity.

Overview

The number of transactions in the fourth quarter of FY2021 increased slightly on the previous quarter and was significantly higher on the same quarter in the prior year.

The average deal size increased from \$22.9 million in Q3 FY2021 to \$26.9 million in Q4 FY2021, an increase of 17%. Over the last 12 months, the average deal size was up from \$17.3 million to \$21.2 million, an increase of 23% from the average deal size for the prior 12 months. The increase in the average deal size resulted from greater average deal sizes in Q3 of FY2021 and Q4 of FY2021.

Number of transactions and disclosed average transaction value by quarter

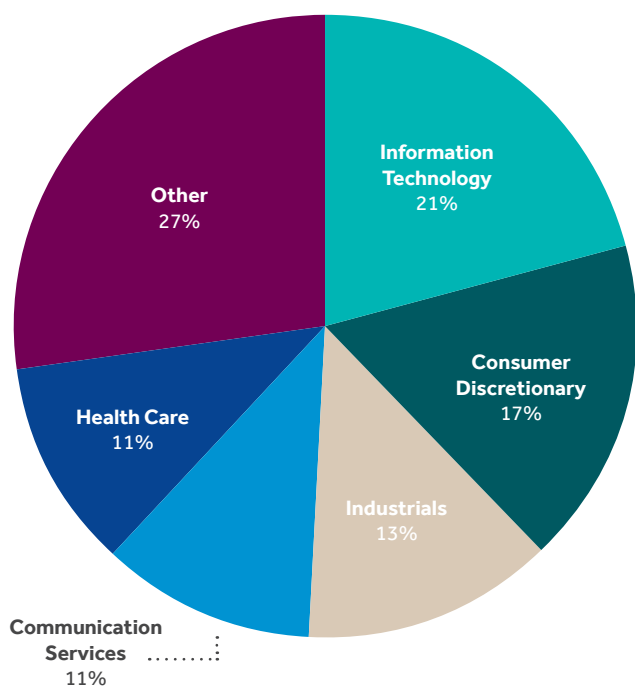


Sector

Information technology (21%), consumer discretionary (17%) and industrials (13%), were the most active sectors during the quarter, followed by communication services (11%) and healthcare (11%). Combined, the top 5 sectors represent 73% of all transactions completed in the quarter.

M&A activity in the information technology sector continued to be strong albeit a slight decrease in the fourth quarter of FY21, which had 31 transactions compared to 34 in the third quarter. Other significant sectors were the consumer discretionary sector which had 26 transactions, representing a 37% increase from the previous quarter, and the health care sector with 16 transactions, representing a 60% increase on last quarter.

Top sector activity and number of transactions



Geography

Overseas acquirers represented 37% of all transactions. The United States and China were the largest acquirers of Australian companies representing 17% and 5% respectively of all acquisitions in the quarter. Germany, followed by the United Kingdom were also actively acquiring Australian companies on a slightly smaller scale.

Overseas acquirers were active across the information technology, industrials, consumer discretionary and communication services sectors, representing 70% of total overseas transactions. Activity increased significantly in comparison to the same period last year from only 4 transaction in Q4 of FY2020 to 53 transactions in Q4 FY2021. This is a clear sign that the market is showing signs of recovery after COVID-19.

EBITDA multiples

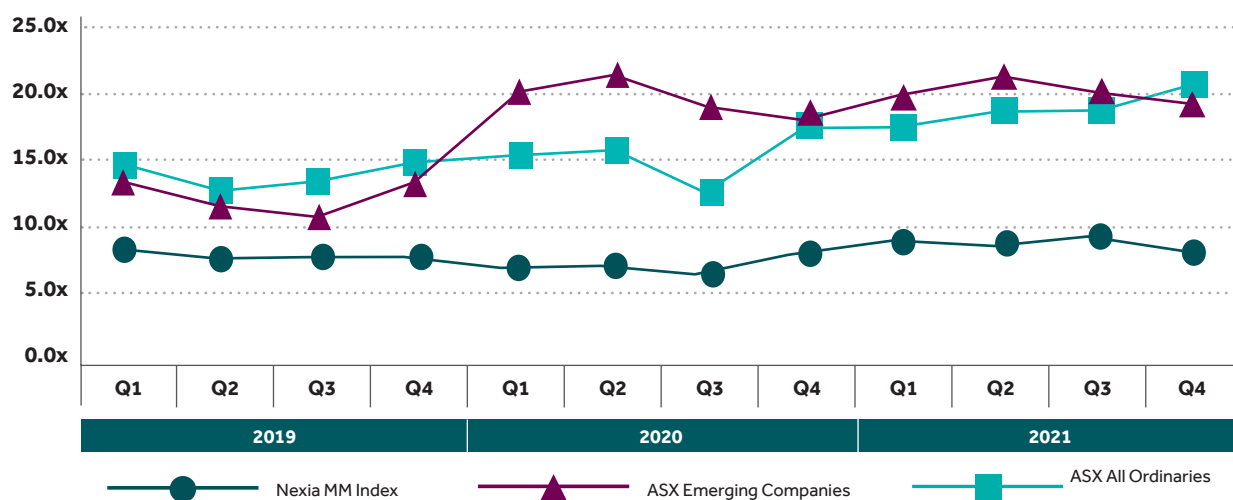
The Nexia MM Index (see below regarding methodology and limitations) is compared to relative ASX indices in the graph.

The ASX Emerging Companies index decreased by 6% and ASX All Ordinaries index increased by 10% from the prior quarter. The Nexia MM Index decreased by 8% in the current quarter.

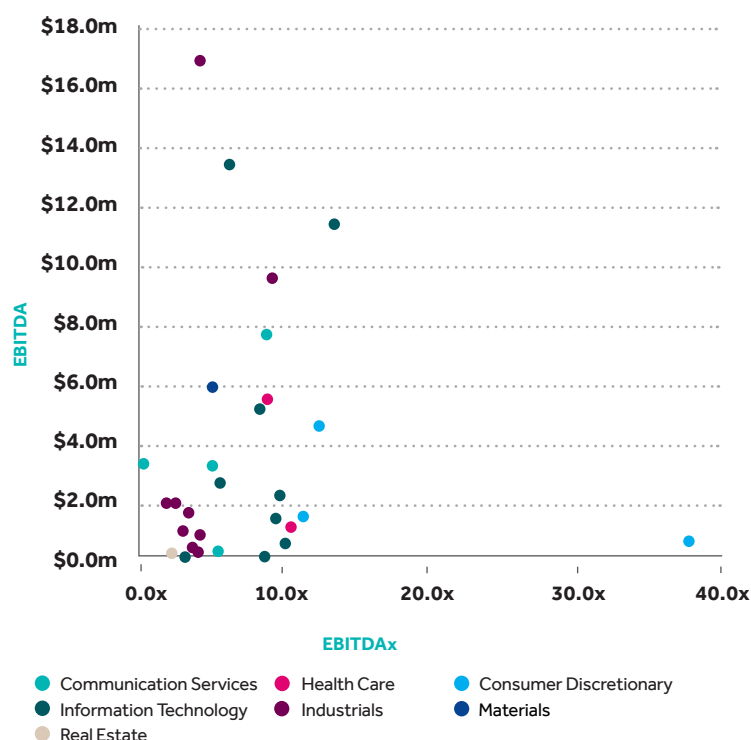
One transaction can have a significant impact on the Nexia MM Index. To provide more insight into the Nexia MM Index, we have highlighted the EBITDA and capitalisation multiple of some of the transactions.

Although the same limitations apply to this analysis as the overall index, the study bears the relationship between multiples and size with lower EBITDA generating companies also receiving a lower multiple. It also provides an insight into the relative sector multiples.

The Nexia MM Index compared to relative ASX listed companies



Snapshot of EBITDAx distribution by sector



Methodology

The analysis was prepared based on data sourced from S&P Capital IQ at the end of each quarter. Our data set has not been updated for transactions that may be added to S&P Capital IQ retrospectively as data becomes available. Data analysed is for completed transactions, with a primary geographic location in Australia and an implied enterprise value of less than \$200 million from 1 April 2021 to 30 June 2021. Transactions where no value was disclosed is included in the volume data with the implicit assumption that these would relate to smaller transactions and therefore meet the criteria.

Overall 1,382 transactions are included within the data analysed. Transaction values were disclosed for 608 (44%) of these transactions with an aggregated transaction value of \$21.3 billion. 68 transactions (5%) had sufficient data disclosed to calculate the EBITDA multiples.

In respect of our methodology, we note that this is a simple analysis to give an overview of the market and potential movements. It should in no way be seen as a substitute for a rigorous review of any potential opportunity that you may be considering and you should seek appropriate professional advice for your circumstances.

We note that the source data is limited by the amount of information that is made public and captured in the S&P Capital IQ database. The calculations we have performed, in particular due to the limited number of data points in respect of EBITDA multiples, can be heavily influenced by a single transaction which reflects that transaction's particular circumstances rather than a reflection of the market as a whole.

Analysis of all transactions, including sector and buyer location is based on S&P Capital IQ classifications.

About the Nexia MM Index

The Nexia mid-market EBITDA multiple (Nexia MM Index) analysis is a simple analysis of EBITDA for acquisitions of unlisted mid-market companies where the data is reported. It is indicative of a trend in the overall market rather than implying the multiple that should be considered for a particular company. The Nexia MM is limited by a number of factors, including that there are a small number of transactions in Australia where the data is available. As a result the average EBITDA multiple can be significantly influenced by individual transactions where the specific characteristics of the transaction may have resulted in a higher or lower multiple than would otherwise be achieved. To minimise the impact we have shown a rolling annual EBITDA multiple for disclosed transactions above.

Considering the data against the listed company comparative, the Nexia MM is based on acquisitions and therefore implicitly reflects a control premium whereas the multiple for the listed companies reflect a portfolio interest.

The range in the identified EBITDA multiples is significant at 2.6x to 12.3x in FY2019 and 2.6x to 22.0x in FY2020. The range for FY2021 is 0.2x to 37.8x.

Contact us

If you would like to discuss further any of the information provided in this update and how it will impact you, please contact your Nexia Adviser.

Contact us

For further information or to discuss how Nexia Australia can assist your organisation, please contact a local Nexia Advisor below.



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