

MERGERS & ACQUISITIONS

ANNUAL REPORT
FY2024 AND BEYOND



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EXECUTIVE SUMMARY

Australia's M&A market continues to be subdued. The pandemic-induced boom of 2021, fuelled by low-interest rates and government stimulus, gave way to a more subdued 2022 and 2023 as economic conditions tightened, a trend that has continued in 2024.

This report delves into the complexities and nuances of Australia's M&A market, providing a comprehensive analysis of deal trends, valuations, and industry dynamics. By examining the key drivers shaping the market, we aim to offer valuable insights for businesses seeking to capitalise on growth opportunities through mergers and acquisitions.

Amidst a complex and dynamic market environment, this report sheds light on the opportunities and challenges facing Australian dealmakers.

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

We trust you find our report and the analysis to be valuable.

If you have any questions regarding the content of this report, please reach out.



SOME OF THE KEY FINDINGS OF THE REPORT ARE:

- The year ended 30 June 2024 saw an increase in the number of deals exceeding \$1 billion, with 26 deals compared to 9 deals in the previous year and 15 deals in FY2022.
- The average transaction size of \$121m was up from \$89m in the previous year.
- The total number of deals decreased by 21%, from 1,190 deals in FY2023 to 945 deals in FY2024.
- The overall average multiple achieved for completed deals decreased from 10.3x in FY2023 to 9.3x in FY2024.



Nicholas Guest

Partner, Assurance & Advisory

P: 02 9020 4121

E: nguest@hlbnsw.com.au



Simon James

Partner, Assurance & Advisory

P: 02 9020 4212

E: sjames@hlbnsw.com.au

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NUMBER OF TRANSACTIONS

Based on publicly available data, 945 deals were completed in FY2024, a decrease from 1,190 and 1,487 in the two preceding financial years.

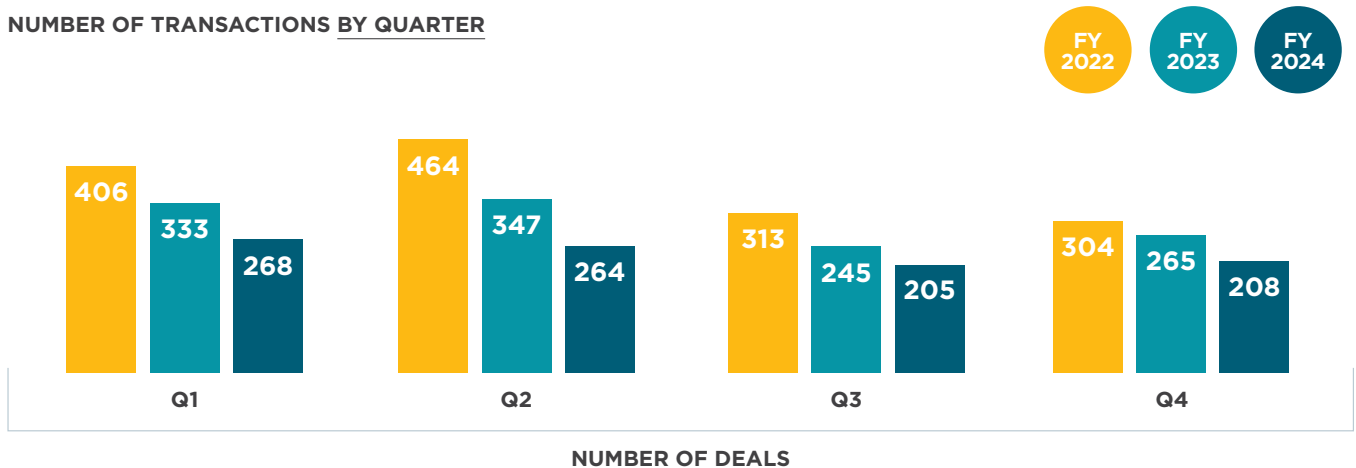
The graph below displays deal activity by quarter, Q2 FY2024 maintained a consistent number of deals with Q1 FY2024, likely due to the push to complete transactions before the end of the 2023 calendar year, a trend that had been observed in previous years.

The reduced number of deals across all quarters in FY2024 compared to FY2023 and FY2022 indicates

that investors are continuing to take a cautious approach when meeting vendor pricing expectations in light of high interest rates, increased inflation, and ongoing geopolitical tensions.

Consequently, some transactions continue to be put on hold as dealmakers prioritise extending their operating cash runway, delaying deals until market conditions improve, and pursuing those transactions that offer clear value add.

NUMBER OF TRANSACTIONS BY QUARTER



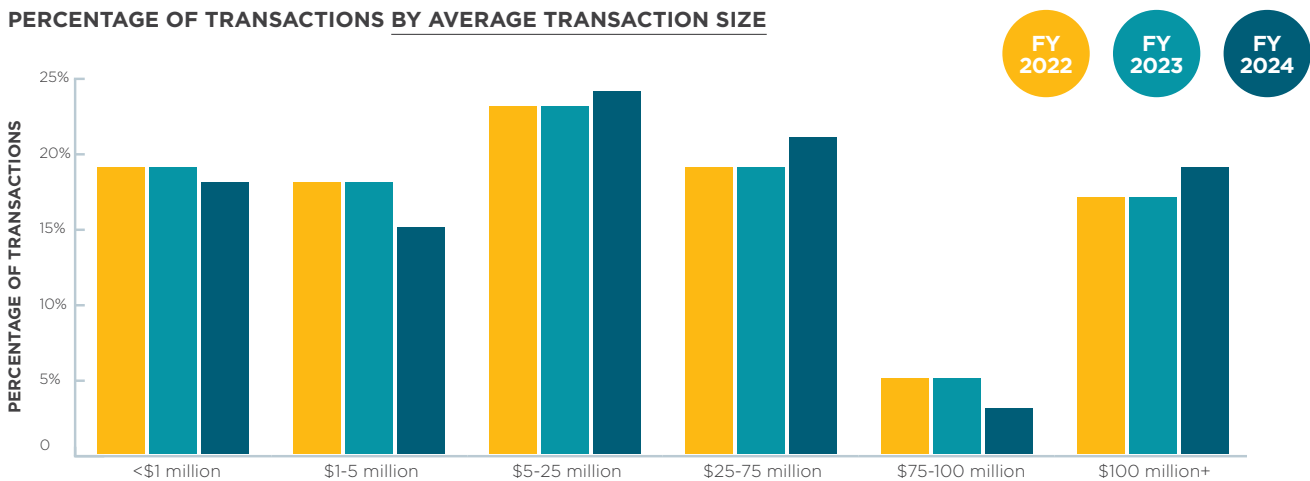
The decline in deals across all four quarters of FY2024 mirrors the market's current economic realities

TRANSACTION VALUES

The average transaction value increased from \$89 million in FY2023 to \$121 million in FY2024, equivalent to the average transaction size of \$121 million in FY2022.

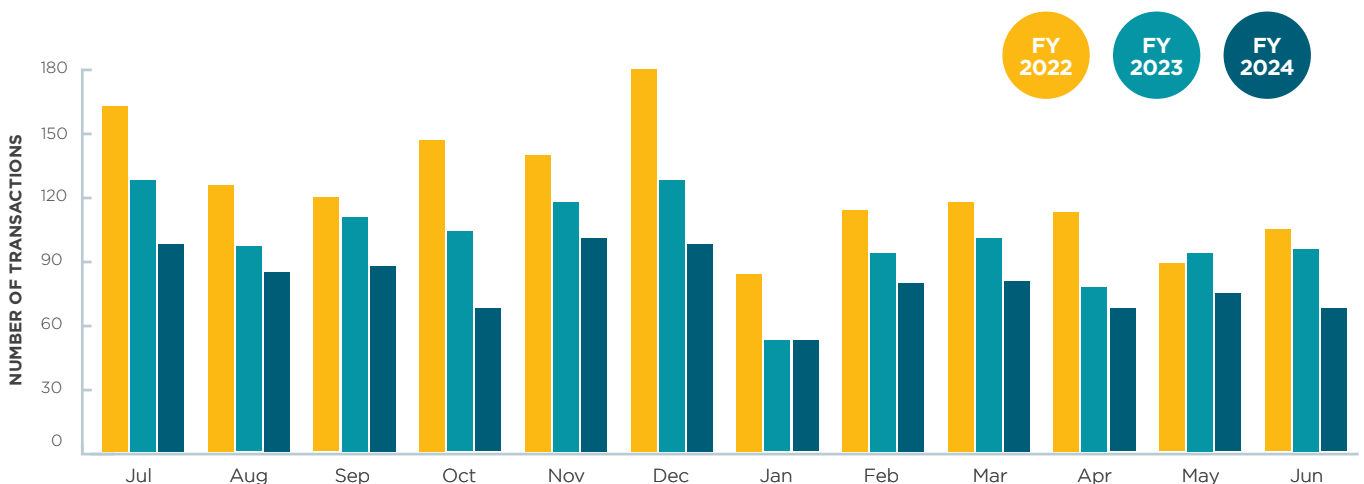
The increase in the average deal size compared to FY2023 is driven by a higher number of deals exceeding \$1 billion in FY2024 (26 deals) than in FY2023 (9 deals) and FY2022 (15 deals). This indicates that large businesses with available finance are seizing the opportunity to pursue mergers and acquisitions that were previously viewed to be overpriced and out of reach. Additionally, the trend may reflect dealmakers' priority in deals with clear strategic advantages and long-term potential over short-term investments. However, the increased cost of debt and equity, coupled with stricter investment and lending criteria from financiers and equity investors, respectively, has led many to adopt a more cautious approach when evaluating M&A opportunities, resulting in a wider bid-ask spread.

PERCENTAGE OF TRANSACTIONS BY AVERAGE TRANSACTION SIZE



When analysing transactions on a monthly basis, the number of transactions completed for each month in FY2024 appears lower, on average, when compared against FY2023 and FY2022. This trend highlights risk-averse strategies employed by dealmakers and the rigorous due diligence processes that may slow deal completion in response to current interest rates, inflation and broader economic conditions.

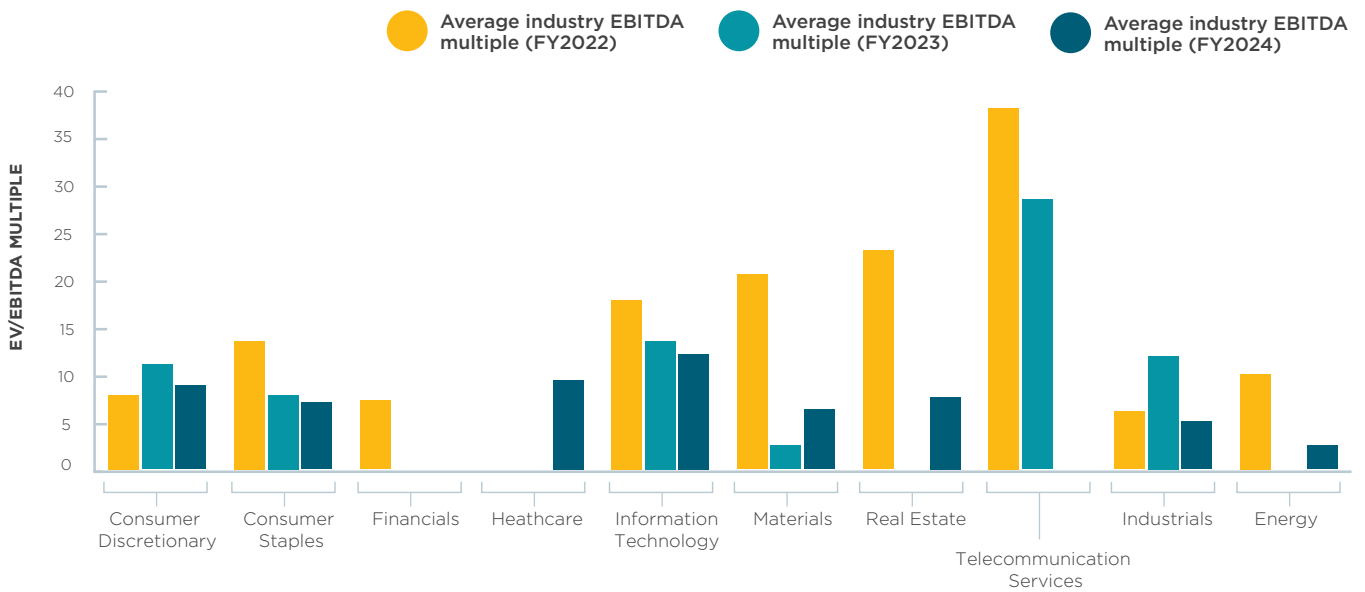
NUMBER OF TRANSACTIONS BY MONTH



VALUATION MULTIPLES

The consumer discretionary, consumer staples, information technology and industrials industries have all seen a decrease in the average transaction valuation multiple in FY2024 compared to FY2023. In contrast, the materials industry average transaction valuation multiple increased in FY2024 compared to FY2023.

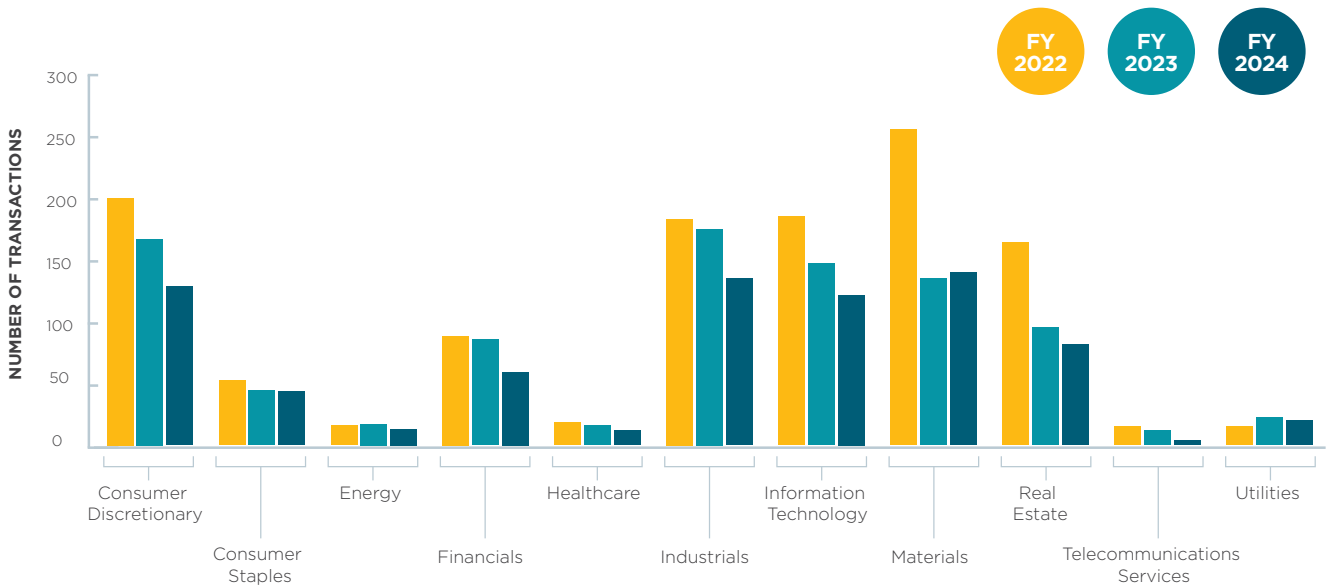
The overall average multiple achieved for completed deals decreased from 10.3x in FY2023 to 9.3x in FY2024, which are both lower than the average multiple for deals in FY2022 of 15.6x. The lower average multiple for deals in FY2024 is a reflection of the wider reduction in M&A activity by dealmakers due to the current economic outlook.



INDUSTRY ANALYSIS

The number of deals across all industry groups in FY2024 was lower than in FY2023.

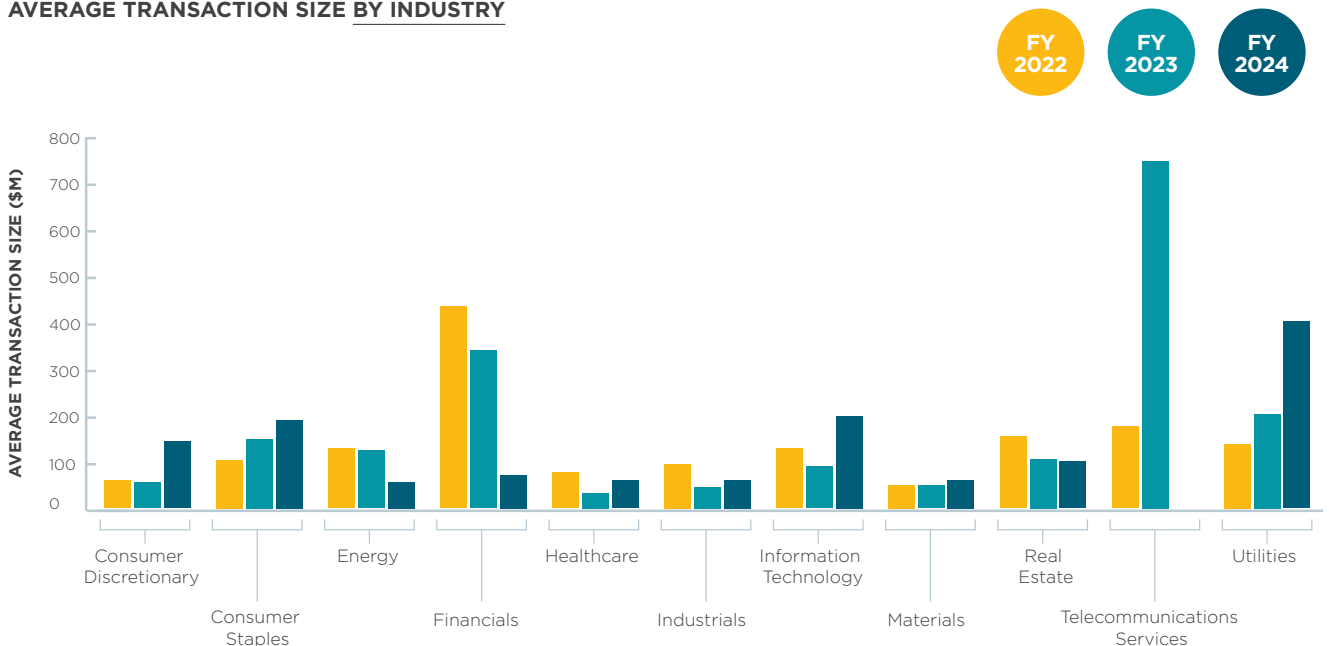
NUMBER OF TRANSACTIONS BY INDUSTRY



The average observed transaction sizes are higher in consumer discretionary, consumer staples, healthcare, industrials, information technology, materials, and utilities industries in FY2024 compared to FY2023.

This suggests these industries may have been more resilient to the high inflation and interest rate environment impacting the economy and further suggests that dealmakers are prioritising quality over quantity. Conversely, the average transaction sizes are lower in the energy, financials, and real estate industries in FY2024 compared to FY2023.

AVERAGE TRANSACTION SIZE BY INDUSTRY



MAJOR DEALS

The largest observed deals by transaction value in FY2024 as previously reported in our M&A quarterly reports:

SECTOR	TARGET	ACQUIRER	SELLER	STAKE ACQUIRED (%)	TRANSACTION VALUE (\$ MILLIONS)
QUARTER 1					
CONSUMER STAPLES	Aesop Retail	L'Oreal S.A.	Nature Cosmetics S.A.	100	3,772.2
CONSUMER STAPLES	Blackmores	Kirin Health Science Australia	Shareholders (Public Company delisted)	100	1,915.0
INDUSTRIALS	JELD-WEN Australia	Platinum Equity	JELD-WEN Holding	100	750.8
MATERIALS	Mincor Resources	Wyloo Consolidated Investments	IGO	80	646.8
CONSUMER DISCRETIONARY	Best & Less Group Holdings	BB Retail Capital	Multiple groups of investors.	84	409.1
QUARTER 2					
CONSUMER DISCRETIONARY	InvoCare	TPG Global	Shareholders (Public Company delisted)	83	1,969.8
UTILITIES	Alinta Energy Pilbara	APA Group	Multiple groups of investors.	100	1,722.0
MATERIALS	Azure Minerals	SQM Australia	Deutsche Balaton	100	1,618.5
HEALTHCARE	Healthscope Portfolio	HMC Capital and other investors	Medical Properties Trust	100	1,200.0
HEALTHCARE	Estia Health	Bain Capital	Multiple groups of investors.	100	993.5
QUARTER 3					
UTILITIES	Tokyo Gas Australia 1 Pty Ltd	MidOcean Energy, LLC	Tokyo Gas Australia Pty Ltd	100	3,361.3
CONSUMER STAPLES	Costa Group Holdings Limited	Paine Schwartz Partners and other investors	NA	85	2,470.2
CONSUMER DISCRETIONARY	On The Run Pty. Ltd.	Viva Energy Group Limited	Peregrine Corporation Pty. Ltd.	100	1,244.7
CONSUMER DISCRETIONARY	PETstock Pty Ltd	Woolworths Group Limited	Auctus Investment Group Limited	55	1,108.0
MATERIALS	Lithium Power International Limited	Salar de Maricunga SpA	Minera Salar Blanco SpA	100	379.5
QUARTER 4					
INFORMATION TECHNOLOGY	Link Administration Holdings Limited	Mitsubishi UFJ Trust and Banking Corporation	Multiple groups of investors.	100	2,325.2
MATERIALS	Adbri Limited	CRH plc	UBS Group AG	57	2,041.2
CONSUMER STAPLES	7-Eleven Stores Pty Ltd	7-Eleven International LLC	R.G. Withers Nominees Pty Ltd	100	1,710.0
INFORMATION TECHNOLOGY	Energy Exemplar Pty Ltd	Blackstone Inc. and other investors	The Riverside Company	100	1,600.0
MATERIALS	Silver Lake Resources Limited	Red 5 Limited	Multiple groups of investors.	100	1,124.6

SME DEALS

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

REVENUE (\$ MILLIONS)	SECTOR	TARGET	ACQUIRER	STAKE ACQUIRED (%)	TRANSACTION VALUE (\$ MILLIONS)
28.0	INFORMATION TECHNOLOGY	AssetOn Group Pty Ltd/OnPlan Technologies Pty Ltd	COSOL Limited	100	28.9
21.8	INDUSTRIALS	Lazer Safe Pty Ltd	Halma plc	100	45.0
45.4	INDUSTRIALS	Nineteen Group	MaxiPARTS	100	27.0
45.0	MATERIALS	JacPak	IVE Group	100	35.0
41.7	ENERGY	Guardian Geomatics	Reach Subsea	100	15.5
42.4	INDUSTRIALS	FourQuarters Recruitment Pty. Ltd.	Matching Service Japan Co., Ltd.	75	34.1
40.0	UTILITIES	Arkana Energy Group	1komma5° GmbH	100	100.0
29.7	INFORMATION TECHNOLOGY	Damstra Holdings Limited	Ideagen Limited	100	87.8

HLB'S TRANSACTION INVOLVEMENT

Across the year, HLB supported stakeholders in achieving transaction objectives through the provision of M&A advisory services, conducting financial and taxation due diligence reviews, undertaking business valuations, and providing general transaction advice and support.

There continues to be M&A demand for well run businesses that offer a distinct competitive edge with niche product offerings. These opportunities are now under increased attention from both local and foreign investors.

HLB remains active across the M&A sector and is currently engaged in the sale processes of several businesses spanning the technology, transport, media, manufacturing, freight forwarding and industrial sectors.

During FY2024, 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, due to the ever-changing industry and macroeconomic environment, differences in the perception of risk as well as lack of foresight to agree key deal terms upfront. In terms of the latter, we observed cases where buyers were making unsolicited approaches to businesses that were not transaction ready.

FY2024 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 to bring new shareholders in or allow existing shareholders to exit. The continued inflationary economic environment and increasing interest rates have inflated discount rates. Businesses that hold investments in other businesses or have intangible assets arising from previous acquisitions have had to strongly consider indicators of impairment to carrying values compared to previous years.

The importance of being transaction ready

Being transaction-ready is crucial for Australian business owners looking to maximise value and control their company's future. In today's fast-paced market, opportunities can emerge rapidly. A well-prepared business can swiftly capitalise on mergers, acquisitions, or investment offers.

Transaction readiness involves having comprehensive financial data, a clear strategic plan, and a strong management team. By proactively addressing potential challenges and enhancing the company's appeal to investors or acquirers, business owners can significantly improve their negotiating position and ultimately achieve their long-term goals.

Vendors who have a succession plan in place that clearly defines the potential timing of exit and have a clear exit strategy will be better prepared if approached for a sale, and ultimately achieve optimum outcomes.

M&A OUTLOOK >>>

While FY2025 presents a cautiously optimistic outlook with stabilising inflation and interest rates, challenges such as valuation gaps persist. The market is gradually recovering, with increased deal activity in certain sectors, but remains sensitive to global economic and geopolitical uncertainties.

The focus remains on long-term value creation, with sectors like technology showing promise. Overall, there's a growing appetite for deals, but the market is still navigating economic uncertainties.

Our direct involvement in numerous deals and ongoing client conversations underscores a sustained and robust appetite for high-quality assets within the Australian market.

The trends suggest that dealmakers may now be prioritising transactions with clear strategic advantages and long-term potential, with large businesses taking the opportunity to pursue mergers and acquisitions of targets that were previously considered overpriced or unattainable. Nonetheless, a cautious approach in evaluating M&A opportunities persists across all sectors due to ongoing high interest rates and inflationary environment, as well as continued geopolitical tensions.

We are noting a large increase in the number of institutional investors, particularly from the superannuation sector, that are actively seeking investment opportunities across the Australian market, with environmentally friendly, green sectors being front of mind to many.

The HLB International Transaction Outlook forecasts a dynamic M&A landscape undergoing significant transformation. Driven by a confluence of factors, including rapid technological advancement, heightened ESG scrutiny, a complex geopolitical environment, and the growing influence of private equity, businesses face a landscape rich in both challenges and opportunities. These transformative trends are poised to reshape the M&A market and necessitate strategic adaptation from companies seeking to thrive in this evolving environment.

HLB Mann Judd's [IPO Watch July 2024](#) suggests a shift in investor sentiment has 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.

However, we foresee the continuance of a more risk-averse approach adopted by these institutional investors when evaluating M&A opportunities due to the current global economic climate and market uncertainty.

Looking ahead, private investors are likely to continue exercising caution in evaluating M&A opportunities within the Australian SME segment until there is an obvious improvement in the current economic environment.

We anticipate private investors will be prioritising investments in ventures with strong business fundamentals, such as stable earnings and clear value propositions to optimise their portfolios amid the persistent high interest rates and inflationary pressures.

Moreover, with the Australian government's commitment to achieving net-zero emissions by 2050, we foresee an increase in M&A activity within energy transition infrastructures, including the energy storage and distribution sectors, particularly among government-backed fund managers. This trend was evident in FY2023, when the Clean Energy Finance Corporation, a government-backed fund, invested in 50 new and follow-on transactions, committing a total of \$1.9 billion to ventures aimed at reducing emissions across the Australian economy.

CONTACT

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



Simon James
Partner, Assurance & Advisory
P: 02 9020 4212
E: sjames@hlbnsw.com.au



Nicholas Guest
Partner, Assurance & Advisory
P: 02 9020 4121
E: nguest@hlbnsw.com.au



Warrick Oakes
Director, Assurance & Advisory
P: 02 9020 4385
E: woakes@hlbnsw.com.au

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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.

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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.

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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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