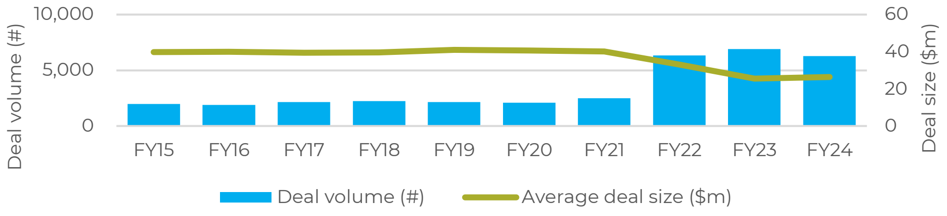
APAC MID-MARKET M&A REPORT FY24

Overview – Small transactions drive increased deal volumes as PE holding periods slide amid valuations gap

As we enter the 2025 financial year, Moore Australia takes the opportunity to review the mid-market M&A activity for FY24.

Consistent with the previous two FY's, deal volumes have increased significantly on long term trends, driven by improved deal reporting and industry consolidation amongst small businesses. This is highlighted by the fact that 63% of deals in the mid-market were smaller than $5m over the latest 3-year period compared to 35% over the preceding 7 years. In total, FY24 volumes have tapered as expected following the FY22 & FY23 post-COVID boom.

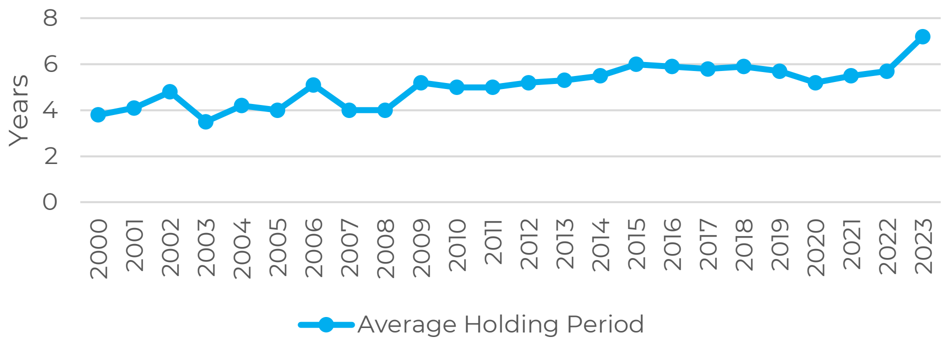
Figure 1:
Deal volume and size FY15 - FY24 (APAC)



In addition to the frequency of smaller transactions, lower deal values have been further impacted by an increase in average PE holding periods. Financial buyers are feeling the pinch of stubborn interest rates and macro uncertainty, which has meant they're waiting for valuation gaps to drop so they can meet IRR hurdles. This has a circular impact as longer holding periods then demand greater exit values to meet these hurdles.

As per S&P Global, the average holding period for buyouts among US and Canadian private equity funds spiked to 7.1 years in 2023 as of Nov. 15, the longest hold since at least 2000. In comparison, during the full year 2022 the average holding period was 5.7 years. We see this as a good proxy for the APAC PE market.

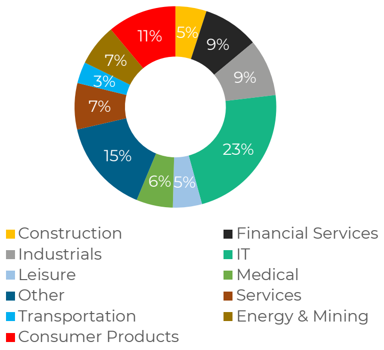
Figure 2:
Average holding period of US and Canada PE funds



Empirical data shows countries with higher interest rates like Australia saw more decline in deals (12%) than countries with low rates like Japan (3%). The IT sector had the most M&A activity despite its share of total volume decreasing for the second consecutive year, indicating the mid-market was mostly unaffected by the AI frenzy seen in public markets. Other sectors facing consolidations such as construction, services and consumer products showed increased deal volumes.

IT sector M&A activity decreasing while construction, services and consumer products industries all increased

Figure 3:
Value of deals by sector FY24 (%)



IT remains the most active space for M&A across APAC. However, its share of deals has decreased from 25% in FY23 to 23%, the second consecutive year of decline. As we are looking at the mid-market (< $150m deal size) it appears the AI frenzy seen in public markets didn't affect transactions in the mid-market.

The construction, services and consumer products industries all showed increases in M&A activity from last year. We have seen a consolidation of market participants in both these sectors as inflationary pressures put pressure on margins.

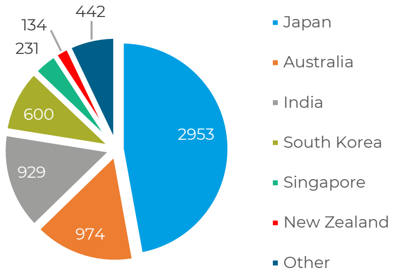
Japan dominating M&A in the APAC region, Australia in second

We saw little change in the composition of M&A activity across regions in FY24.

Japan continues to be an M&A powerhouse in the APAC region, with 2,953 transactions across the year representing 44% of total deal flow. The low interest rate environment helped the Japan market stay resilient in a tough year - deals volumes fell only 3% compared to 9% across APAC.

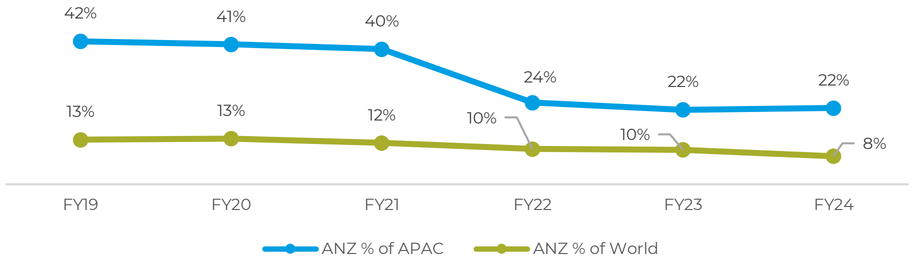
Australia and India retained their position as the 2nd and 3rd most active countries respectively.

Figure 4:
Deal volume by country FY24 (#)



A&NZ's relevance on the global M&A stage is falling post-COVID

Figure 5:
ANZ share of global deal volume (%)



Australia and New Zealand's share of deal volume in APAC has continued its downward trend – falling to 8% in FY24, nearly half of FY19 and FY20 levels. Deal volumes in Australia fell 12% compared to 9% in the APAC region.

On the world stage, ANZ had 22% of global deal volume. The average of 23% across the last three years is low in comparison to the average of 41% over the previous three years. This long term trend may be attributed to the growth in M&A in emerging markets like China, India and Southeast Asia. Another reason may be Australia's immature tech sector – a hotspot for global M&A in recent years.

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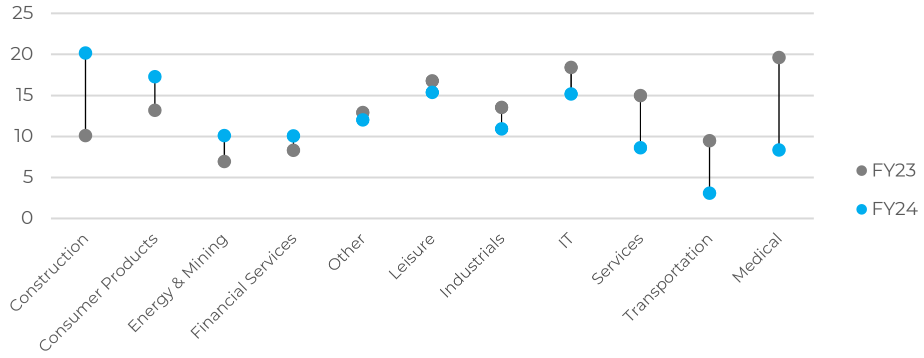
APAC EBITDA multiple trends varies across sectors

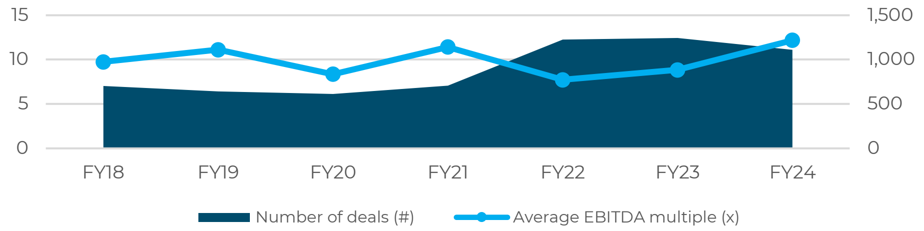
Figure 6:
APAC EBITDA multiples FY23 vs FY24



In Figure 6 we look at how valuations have changed in the last year across different sectors. EBITDA multiples in the construction industry have doubled while consumer products, energy & mining and financial services have also seen increases. Multiples in the remaining sectors decreased with the Medical sector falling from 20x to 8x.

ANZ earnings multiples have significantly increased in FY24

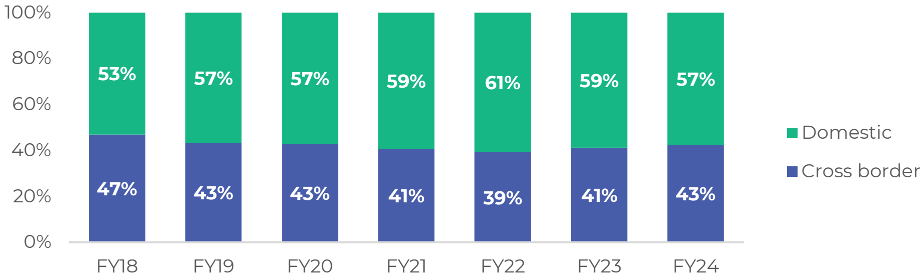
Figure 7:
ANZ EBITDA multiples



Average EBITDA multiples in ANZ have hovered around the 9x-12x mark in recent years. Despite an 11% decline in deal volume, FY24 EBITDA multiples averaged 12.2x, a strong increase from 8.8x in FY23. We have seen growing optimism in the M&A market regarding the future of the Australian economy which improves the growth outlook for businesses and drives up valuations. We note the average deal size is still down.

Cross border M&A involving an ANZ target was consistent with long term trends

Figure 8:
Domestic vs cross border deals in ANZ



In Figure 8 we review the split between domestic and international buyers of Australian and New Zealand based businesses. In FY24, 57% of buyers of ANZ businesses were domestic and 43% were international. Consistent with long term trends, consensus among international investors is that ANZ remains a sensible option when they want to deploy capital or expand into a developed market. A familiarity effect is also seen in the profile of buyers - just less than half of international buyers were from USA and UK.

Major Deal Review

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

We provided lead advisory services to Wild Rhino on their successful sale to The Shoe Group in Q2 FY24. Established more than 20 years ago, footwear and accessories company Wild Rhino is one of Australia & New Zealand's leading footwear brands – specialising in premium quality footwear and accessories for men. 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 footwear sector.

Notes

- Deals with value under $150M were considered;
- Deal values and multiples are based on data available only through Mergermarket; Accessed on 24/07/2024;
- 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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