

APAC MID-MARKET M&A REPORT

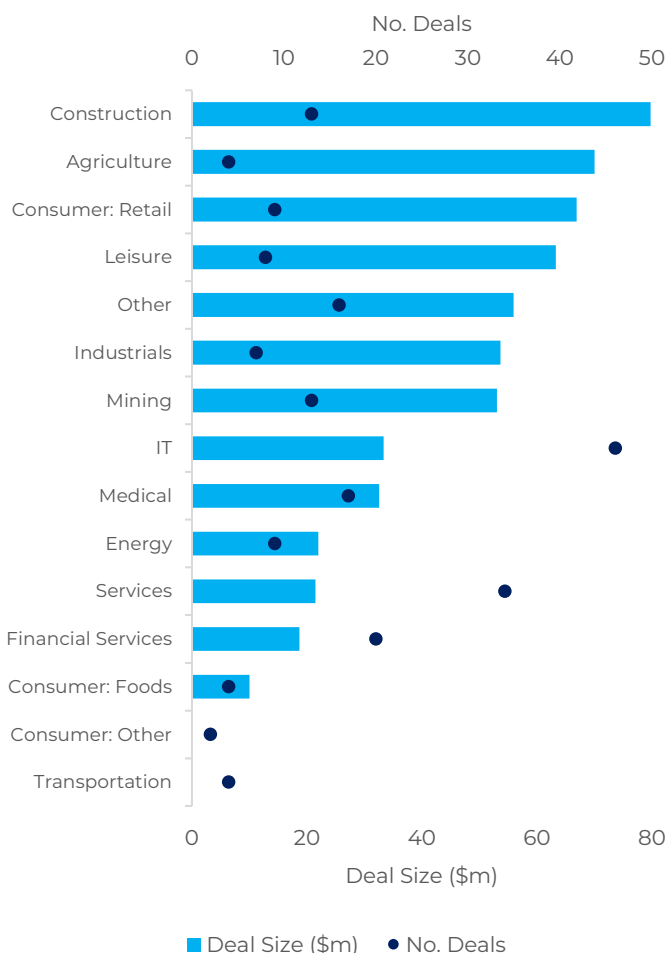
Q3 | 2023

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

As we enter the final quarter of the 2023 financial year, Moore Australia takes the opportunity to review the mid-market M&A activity for Q3 FY23. Many of the dominant themes from last quarter continue to influence dealmaking activity, including high inflation and interest rates, record low unemployment, and soaring costs of living including rent. With the slow activity in equity capital markets, large M&A lingering from previous quarters, mid-market M&A has continued to thrive in the APAC region - particularly with the final loosening of restrictions in regions such as Japan and Singapore.

A risk-averse attitude to investment has cemented itself across the market, with Moore Australia continuing to experience a trend of businesses with strong cash flows and steady profit margins appearing more favourable to acquirers. Continued devaluations in the technology space and recent volatility in the American and European banking industry have led to significant cost reduction efforts in both sectors. However, with inflation finally calming and interest rates stabilising, many profitable businesses with strong balance sheets will be seeking bargain deals that will provide them with the necessary human resources and technical know-how to succeed as market conditions improve. A potential short-term decrease in economic activity is also predicted to re-invigorate M&A activity in the APAC region and reward businesses which are well prepared to take advantage of these improved market conditions.

Local mid-market M&A activity steady from previous quarter, with particular strengths in the IT and Services sectors



Key themes that dominated local M&A decision-making in Q2 FY23 continued to influence the new calendar year, including high inflation, the rising cost of debt and renewed trading opportunities with Asia due to borders reopening within the APAC region.

Thus, the Australia and New Zealand mid-market space has remained resilient, with a total of **206 deals** inked in Q3 FY23, a very slight decrease from 209 in the previous quarter but still bucking the trend seen in larger-scale M&A and ECM. An average deal value of \$37m remains unchanged from last quarter, but remains slightly lower than previous years as the cost of debt impacts company valuations and reverberates across the market.

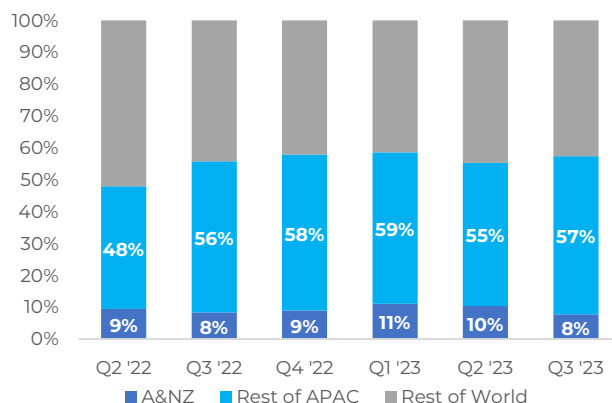
Turning to performance by sector, IT continued to have the greatest number of deals (46) followed by services (34) and financial services (20). M&A activity in the IT space has remained busy, as revaluations have resulted in continued consolidation from previous quarters. This is driven by businesses seeking to capitalize on cost synergies and boost their profit margins. One notable victim of the rising inflation and cost of goods has been the construction sector. Deal volume and average deal size has almost doubled from the previous quarter as many small to medium size businesses in the space have been forced to restructure or sell to avoid financial distress. This trend is expected to continue into FY24.

Other APAC markets are ramping up M&A activity, with Japan leading the charge

	Japan	India	Australia & NZ	South Korea	Singapore	Vietnam	Indonesia	Other	Grand Total
IT	293	62	46	38	26	4	3	11	485
Other	110	38	16	17	10	5	3	14	215
Services	67	20	34	7	7	1	3	9	151
Industrials	61	13	7	25	9	2	1	7	125
Medical	46	18	17	9	1	1	3	3	99
Financial Services	28	14	20	10	5	2	2	11	92
Construction	43	12	13	3	4	4		1	82
Leisure	36	2	8	6	1		1	2	57
Energy	17	10	9	3	2	3	2	4	53
Consumer: Retail	25	5	9	3		1			44
Consumer: Other	13	8	2	9		1		1	34
Consumer: Foods	16	5	4	1	1	1		2	33
Transportation	7	8	4	3		2	2	2	29
Mining	1	2	13				3	2	22
Agriculture	4	1	4		1	1			11
Grand Total	767	218	206	134	67	28	23	69	1,532

The APAC region continued to demonstrate a strong appetite to transact, with **1532 deals** completed across the second quarter compared to last quarter's 1600. These figures are significantly greater than in previous reports, due to delays in deal reporting as a result of economic uncertainty and cost of capital volatility. Average deal size has also remained similar to last quarter, increasing by \$1m to **\$26m** from \$25m last quarter.

Once again Japan saw an increase in the number of M&A transactions following the re-opening of its borders, with 767 deals compared to 728 on the previous quarter. Stagnating economic growth combined with large capital surpluses will ensure that Japan remains an M&A hotspot in the near future.



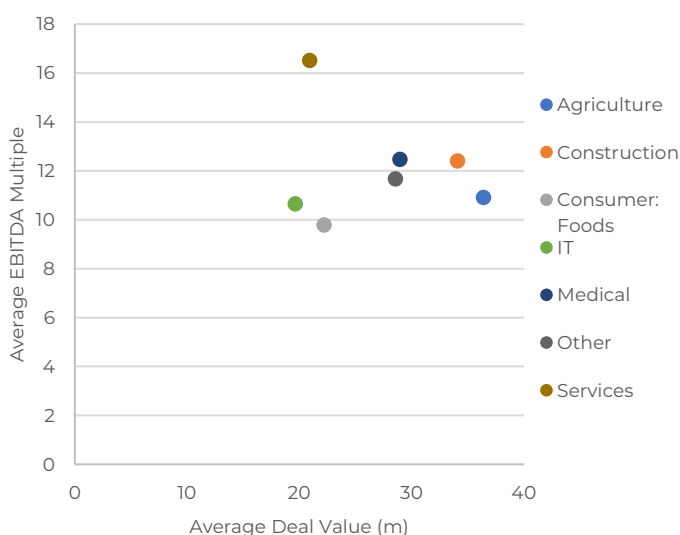
In terms of Australia and New Zealand's relative importance in the mid-market M&A sphere, Q3 FY23 saw a continuation of the decrease in hold to 8% as a percent of total world transaction volume compared to 10% the previous quarter. APAC transaction volume has slightly increased to 57% of total world volume compared to 55% last quarter.

MAV believes this to be due to the further, and final re-opening of borders and loosening of COVID-19 restrictions within many Asian countries, leading to a disproportionate increase in regional M&A activity. Furthermore, continued inflationary pressures, record low employment and ongoing rising interest rates continue to fuel caution amongst Australian dealmakers within transaction timelines being extended as companies tread carefully through the current market volatility.

IT and Services valuations cautious as industry cost-cutting measures continue

A key indicator of industry confidence is the multiples at which buyers are willing to pay. From the available EBITDA multiples extracted from Mergermarket, the two sectors with the most activity, IT and Services, traded at average multiples of **11x** and **16x** respectively. These multiples have decreased on last quarter and are reflective of general trends in the technology space, where downwards revaluations have resulted in staff layoffs and other cost-cutting measures.

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 the third quarter of FY23, we provided transaction support services for the acquisition of a custom furniture maker by a private equity firm. Our services included financial and tax due diligence as well as strategic advice on the commercial aspects of the deal and transaction documents. It is expected that this is first of multiple acquisitions in this sector as the private equity firm puts together a significant business at scale.

Notes:

- Deals with value under \$150M were considered
- Deal values and multiples are based on data available only through Acuris Mergermarket; Accessed on 13/04/2023
- 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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