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M&A 2024: Trends, Risks and Opportunities

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The Current Market Dynamics



Recent Global M&A



- On the back of inflation pressures, interest rate rises, and geopolitical uncertainty, global M&A value was down by around 25% year-on-year in 2023 to its lowest level in 10 years.
- The biggest drops in deal values were seen in APAC (down 26%) and Europe (down 35%).
- Private Equity-led acquisitions slumped by 33% as financial sponsors cut back on leveraged buyouts.
- Dealmakers saw persistent valuation gaps between buyers and sellers – these were often overcome using earnouts and other contingent payment mechanisms.
- However, there was an appreciable uptick in deals in Q4 of 2023.



Recent M&A in Australia

- M&A had its best year in 2021, with almost 1,400 transactions.
- This fell to just under 1,300 deals in 2022, which is still the second highest number of annual deals.
- 2023 saw a further contraction in deal numbers to less than 900 deals for the year on the back of a weakening global economy.
- There were significantly less deals in 2023 in the Financials and Information Technology sectors, both down from the post-COVID surges.
- Healthcare deal volumes also tapered off, indicating a decrease in focus post-pandemic.
- Materials and Consumer Staples sectors saw record deal numbers throughout the year – both sectors were very attractive to international investors on the back of a shift in consumer behaviour, economic uncertainties, and a renewed focus on supply chain security.
- International acquirers accounted for around 30% of deals, with more than three-quarters coming from North America and Europe.
- More than 75% of disclosed deal values were under \$100m – SMEs are the engine room of the Australian M&A market.



M&A Outlook in Australia in 2024

- The local M&A market is **cautiously optimistic**, despite ongoing global headwinds.
- Inflation is starting to fall, and central banks are considering interest rate cuts sometime this year.
- Environmental and Social Governance (**ESG**) is becoming increasingly important, with around half of prospective buyers considering ESG factors during acquisitions.
- **Structured deals** will become more common as both buyers and sellers try to mitigate ongoing risk.
- **SAAS** is likely to remain of interest to savvy acquirers.
- **Artificial Intelligence** is a sector that has emerged over the last six months and is likely to see deal flow as acquirers look to “buy instead of build”.
- **Cybersecurity** is still a sector of interest, as companies come to terms with an increasingly hostile virtual environment.
- **Energy and Materials** are likely to be boosted by the energy transition, especially key metals such as lithium.
- Trade deals are still **likely to take precedence** over Private Equity as the price of debt is still relatively high.



Australian Business Landscape



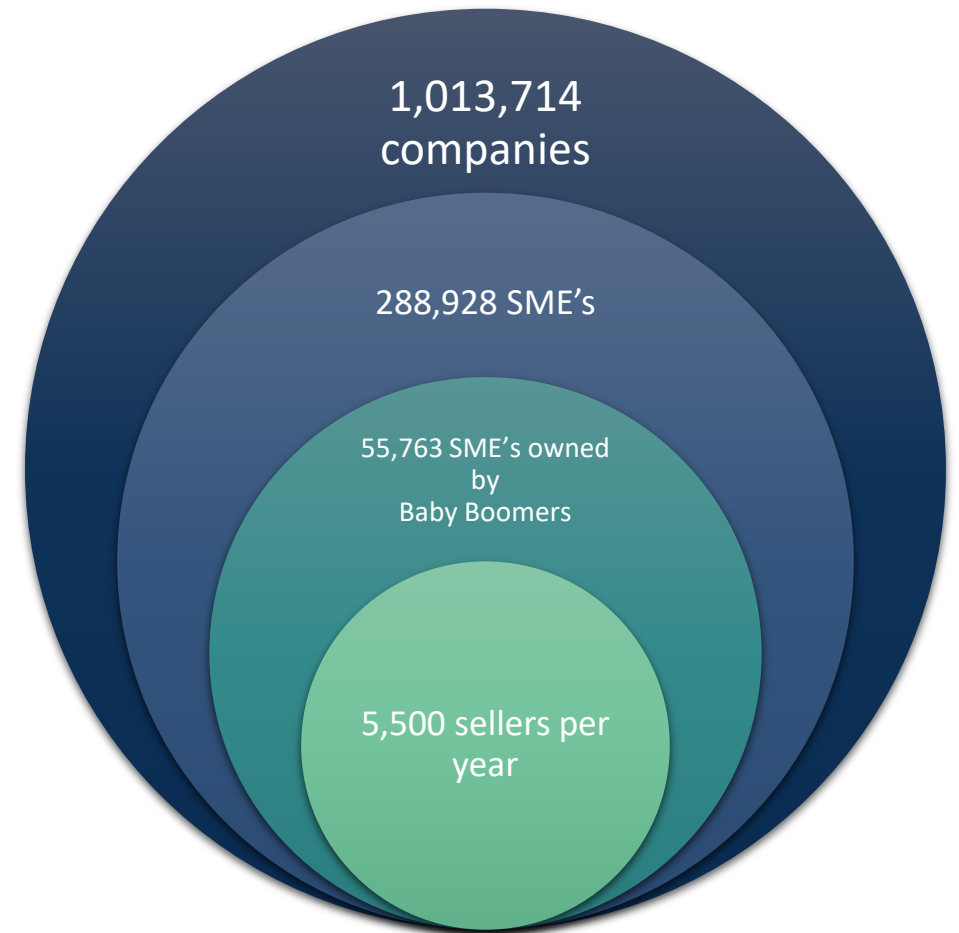


The Market

The biggest movement of wealth in history is currently underway

Baby Boomers

- There are **1,013,714** companies in Australia (excluding non-employing businesses)
- There are **288,928 SME's** in Australia (defined as between 5 and 199 employees)
- **19.3%** of SME owners (**55,763**) are aged **60+**
- **Very few** of these owners have a succession plan or expect to be succeeded by their children in the business
- We estimate this will result in approximately **5,500** sellers per year from this demographic alone



Sources: Counts of Australian Businesses 2020-22,
Australian Bureau of Statistics, 20 May 2022

Small Business Counts 2020 v2, Australian Small Business and
Family Enterprise Ombudsman, December 2020

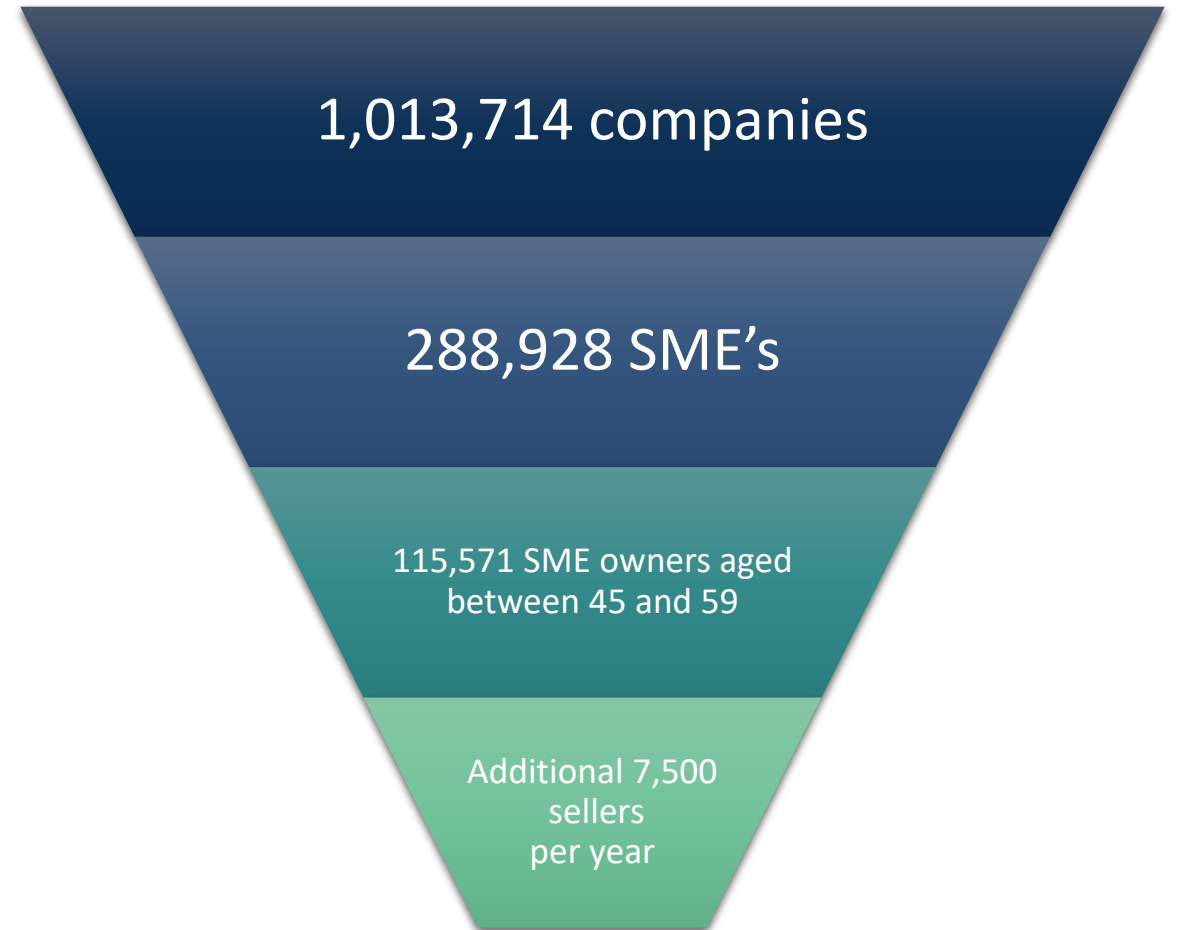


The Market

The biggest shift in wealth in history is currently underway

Gen X

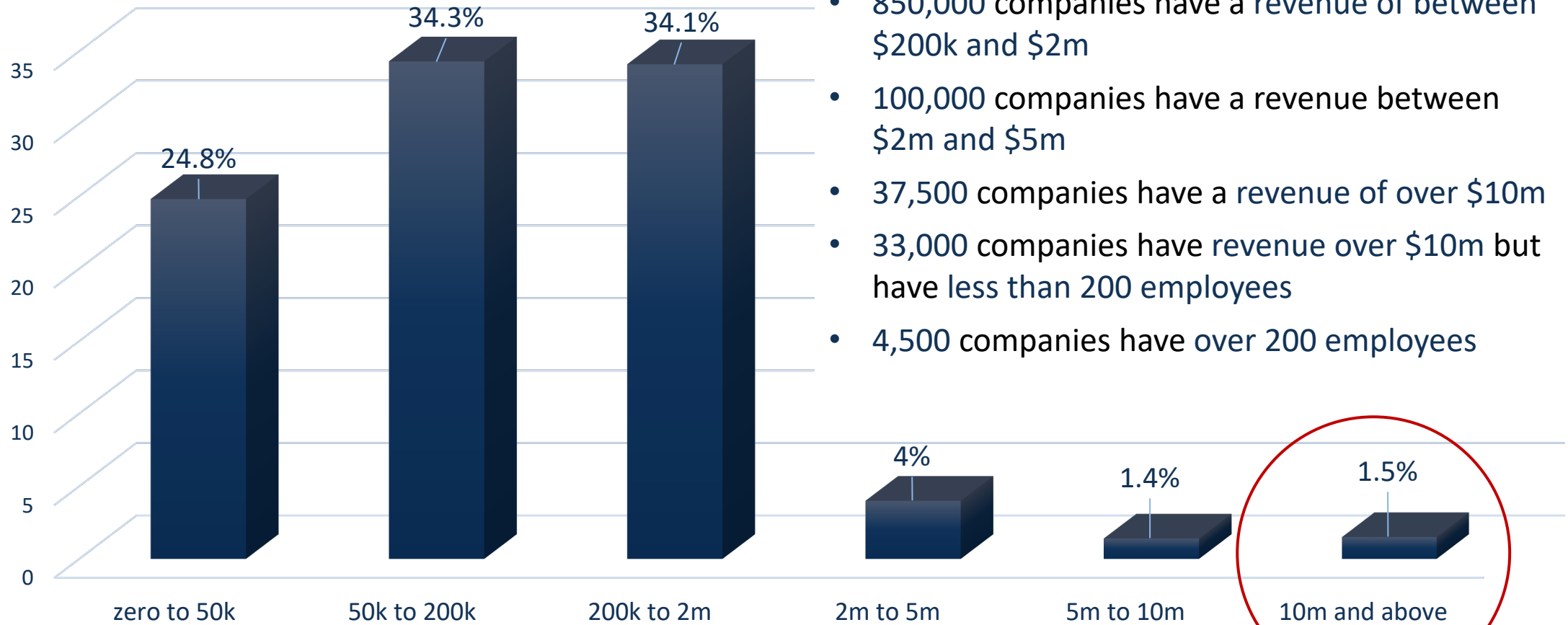
- A further 40% of SME owners (113,571) are currently aged over 45
- Over the next 10 years, some of these owners will start to consider what to do with their business
- We estimate a further 7,500 Gen X sellers per year over the next 10 years
- Gen X added to the Baby Boomers could see 13,000 business selling per year every year for the next decade
- In addition, owners will keep selling for other non age-related reasons



Sources: Counts of Australian Businesses 2020-22,
Australian Bureau of Statistics, 20 May 2022

Small Business Counts 2020 v2, Australian Small Business and
Family Enterprise Ombudsman, December 2020

Annual Turnover Breakdown



- 850,000 companies have a revenue of between \$200k and \$2m
- 100,000 companies have a revenue between \$2m and \$5m
- 37,500 companies have a revenue of over \$10m
- 33,000 companies have revenue over \$10m but have less than 200 employees
- 4,500 companies have over 200 employees

Buyer's are typically very large

Oasis Partners Last Ten Divestments



Profit Margin



The average profit margin across all businesses was **10.9%** (2022)

An average of **1 in 5** Australian businesses
don't make a profit

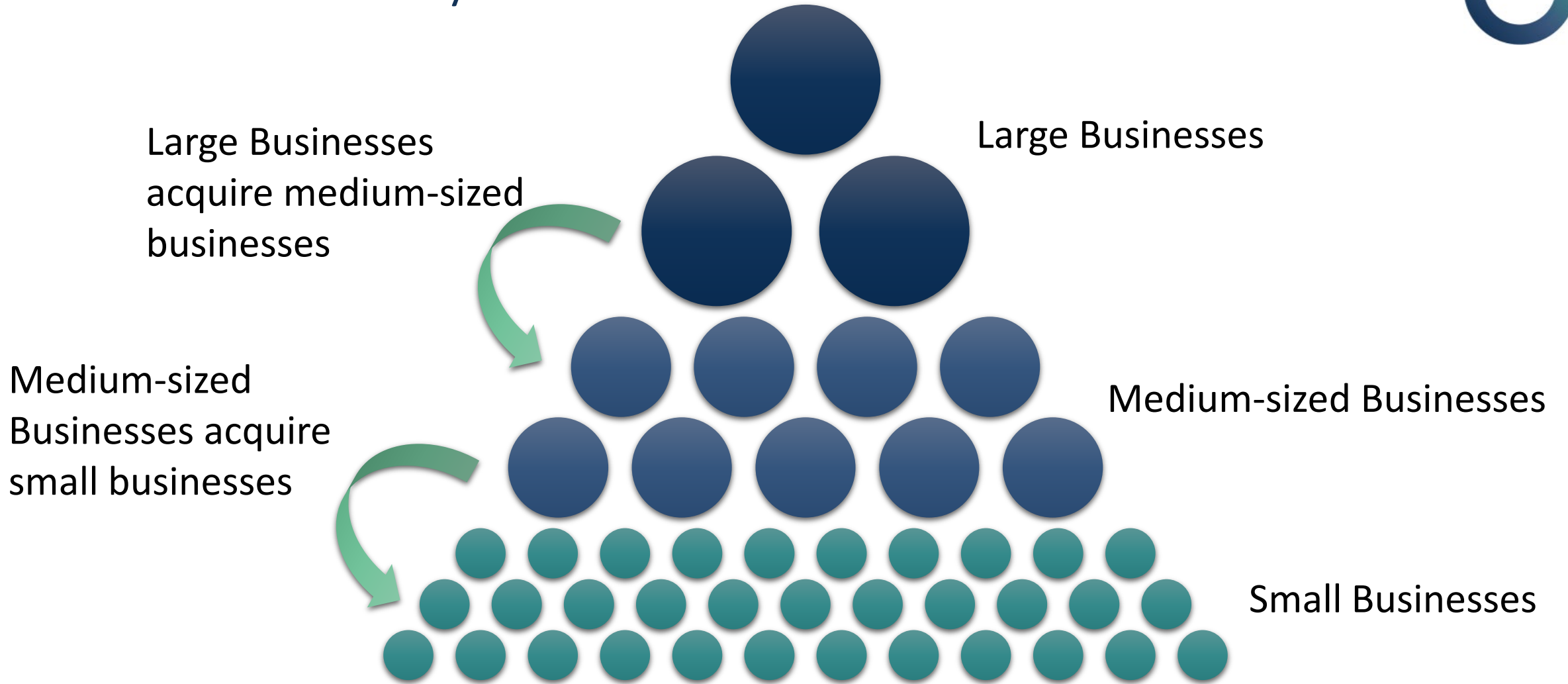
Of the **130,000** mid market businesses that are going to be for sale
in the next 10 years, **26,000** of them won't make a profit

Market Sector Dynamics

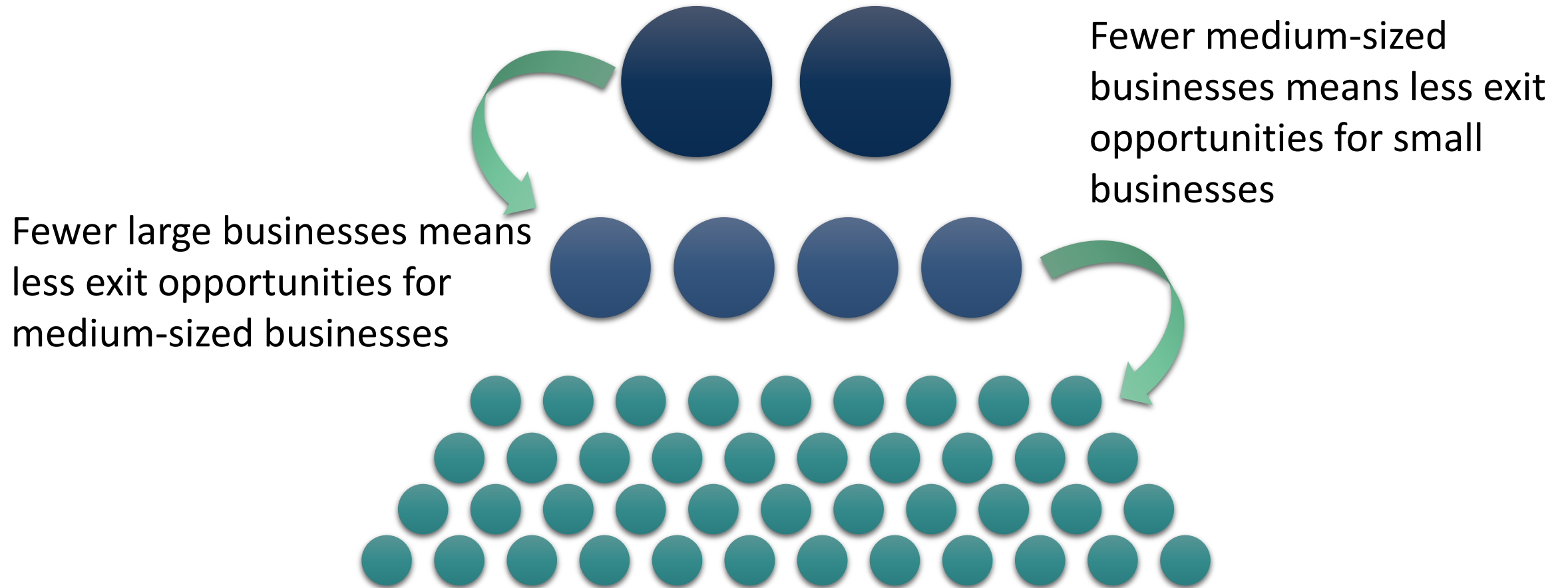




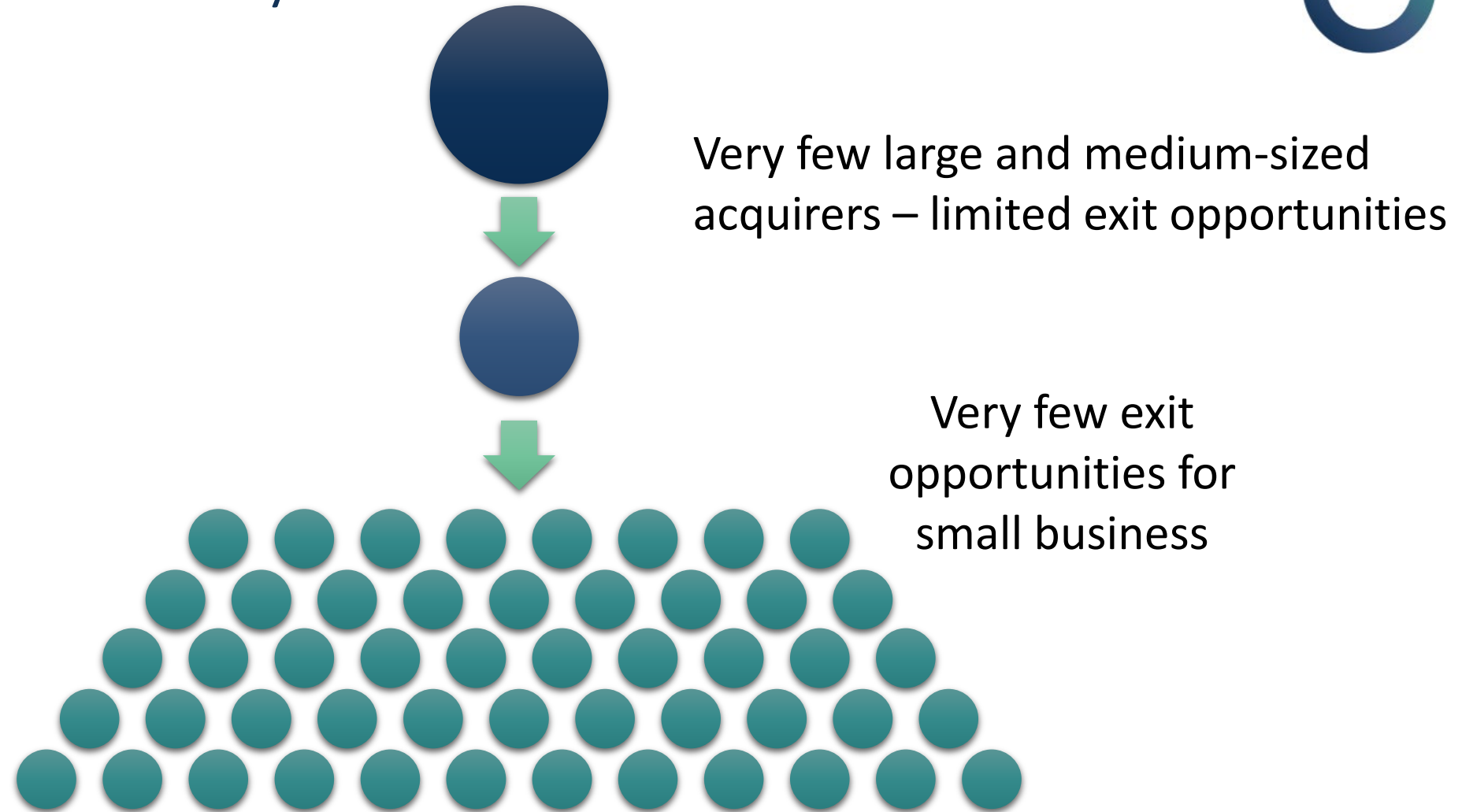
Ideal Sector Hierarchy



Challenging Sector Hierarchy

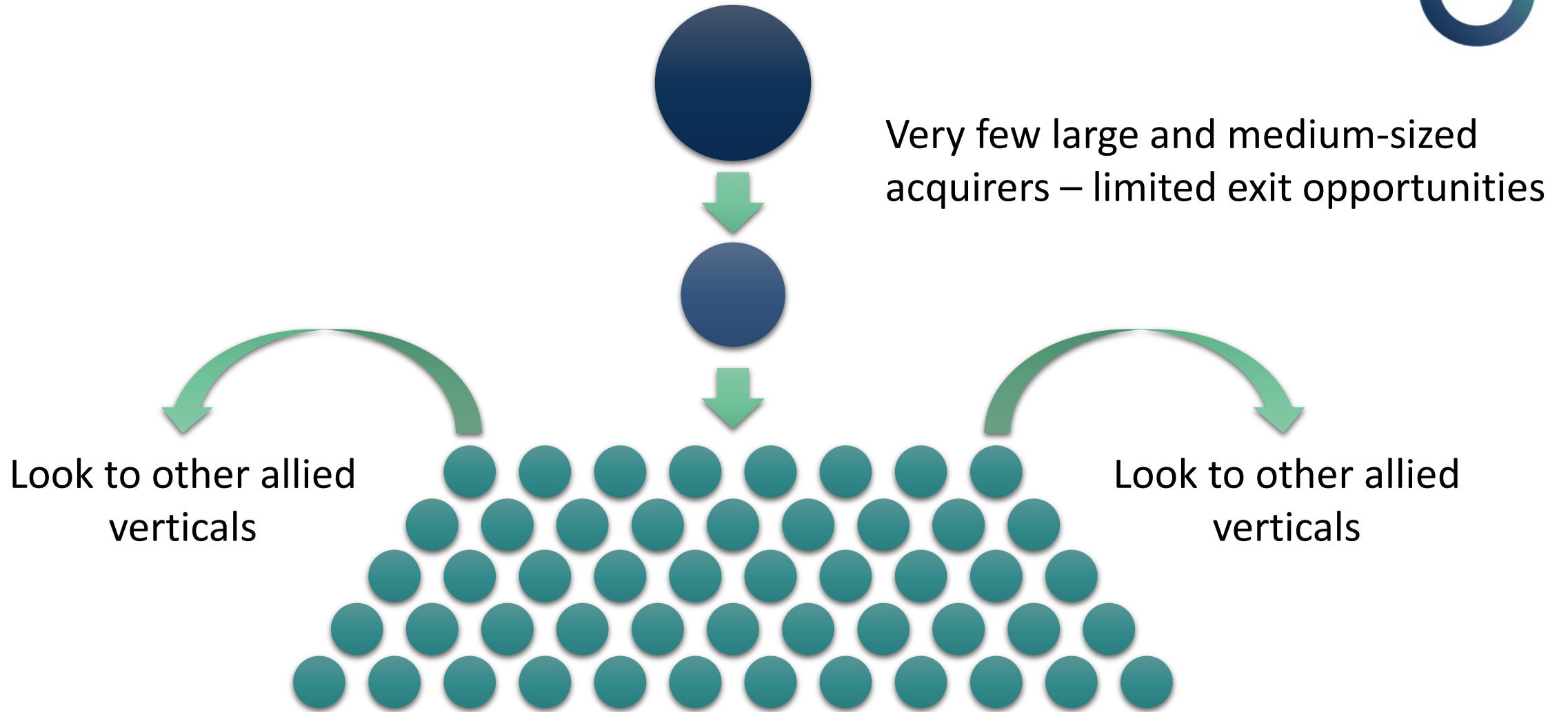


Sub-optimal Sector Hierarchy





What to do? Go wide.....



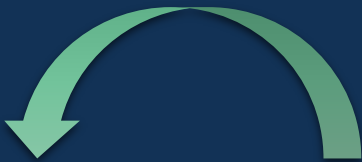
Allied Verticals – Go Wide!



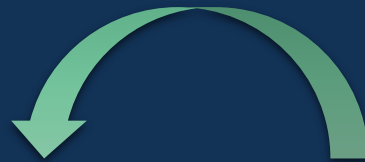
POS Software
Developer



POS Software
Developers



Technology
Aggregators



Software
Providers



Cloud-based
Software Publishers



Private Equity where
already invested



Top 10 Issues for Sellers and How to Overcome Them

Common Mistakes

A Better Approach

Unrealistic timeframe



Sensible timeframe

Buyers pitched not qualified (selling)



Buyers qualified not pitched

Early dissemination of information



Information earned based upon qualification

Focus on sending an IM to whoever signs a CA



Focus on buying criteria, identifying motivations and synergies

Focus on putting the opportunity out there



Focus on research - No advertising

Buyers bossing the process



Seller working in stages

Little to no advice during engagement



Early advice and guidance regarding deal structure
(including good well-presented accurate numbers and a forecast!)

Premature DD



DD only after price and terms settled

Lawyers engaged too early



Lawyers to review term sheet and to help negotiate SPA

Structured deals are always bad!



Structured deals are a great way to bridge a valuation gap

Thanks for listening



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Weekly posts on both creating and unlocking value driven by a practical real-world approach



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No agenda beyond creating some content for business owners or those aspiring to be owners that might help, inspire and encourage them to either get started, keep going or just do better

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