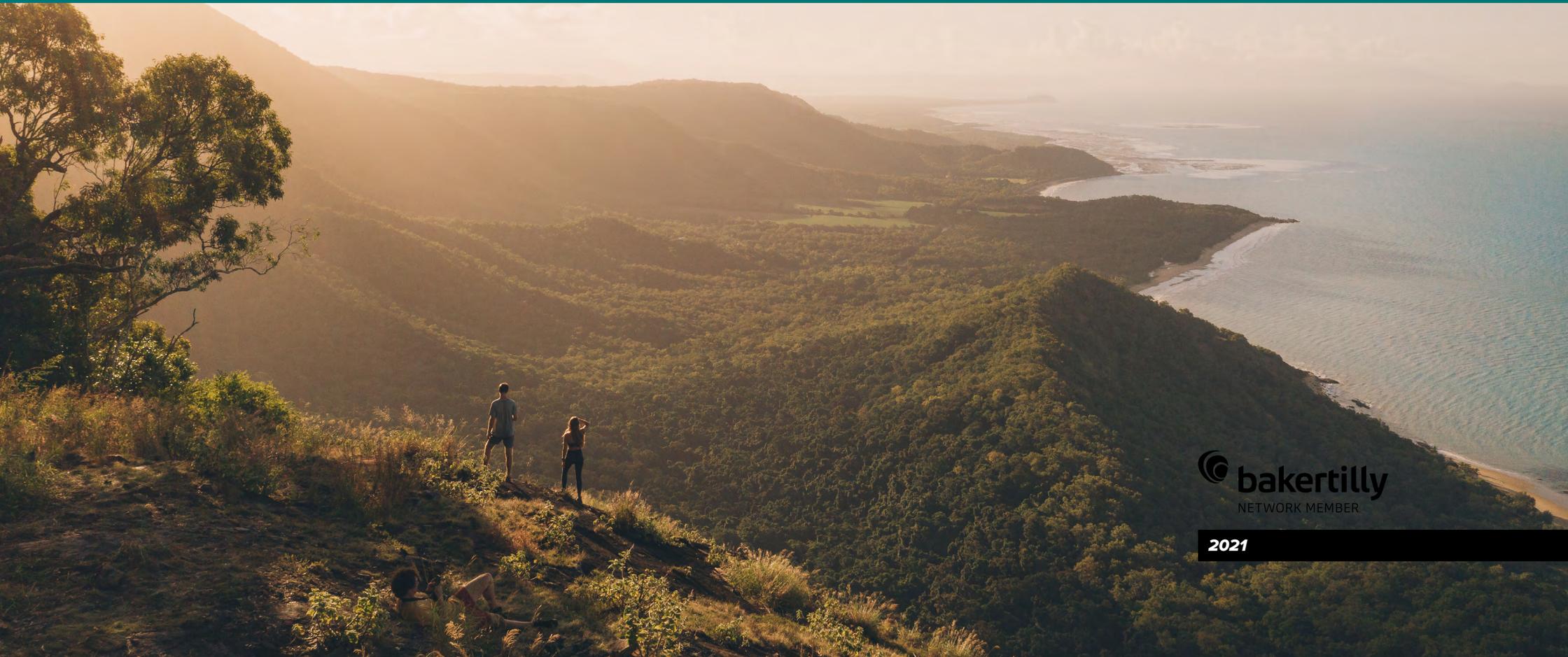




Dealmakers:

Mid-market M&A in Australia 1H21 market update



2021

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About this report:

Data in this report comes from Dealogic and was compiled on 1 July 2021. All figures are in AUD unless otherwise stated. Value figures are approximations and have been rounded.



Foreword

Australia's mid-market shows its strength as dealmaking returns to pre-pandemic levels despite a slower recovery in the broader deal market.

In our annual **Dealmakers** report, 38% of respondents expected Australian M&A to return to pre-pandemic levels by the end of 1H21, 23% forecasting by end of 2021, and the residual of 38% expecting this to be during calendar year 2022. Looking at totals for the half year, it seems that whilst progress is being made, there is still ground to be covered over the balance of 2021.

Indeed, at the half-year mark, Australian M&A is a tale of two totals:

- Values (AU\$110bn in 1H21) which have closed significantly higher than annual totals in 2020 (AU\$72bn) and even pre-pandemic 2019 (AU\$87.6bn); and
- Volumes which are struggling to catch up. Despite a robust M&A market at the end of 2020, overall deals declined in 1H21 (447 deals) and are far from the 1H19 total (551) that would mark a true recovery in the market.

Australia's mid-market (deals valued between AU\$10m and AU\$250m), on the other hand, seems to be aligning with dealmaker expectations. Values recovered to pre-pandemic levels and volumes were only slightly behind: down 5% from 1H19, compared with 19% for the Australian M&A market as a whole in that same time period. Promising pipelines and deal intentions suggest that the second half of 2021 could see further M&A as dealmakers look to the mid-market for opportunities.

Indeed, 2H21 holds much promise for the mid-market and overall dealmaking. Economic growth has bounced back, and Australia's fundamentals, robust IPO market and increasing consumer confidence – put it in rare company as an investment destination. These matched with its mature dealmaking industry mean that M&A deals can still get done, whatever the conditions and for whomever has the resolve to see them through.

Australian M&A: Deal segments by volume



We are very optimistic that Australian dealmakers will continue to be active. Pre-announced deal volume across 1H21 are much higher than in 2020 (as tracked by the SS&C Intralinks Deal Flow Predictor), which will translate to an increase in announced deals in 2H21. We are already on an upward trajectory as we enter Q3 after seeing an increase in early-stage M&A. These are unique times, and market sentiment has made it clear that no dealmaker wants to be caught sitting on the sidelines!

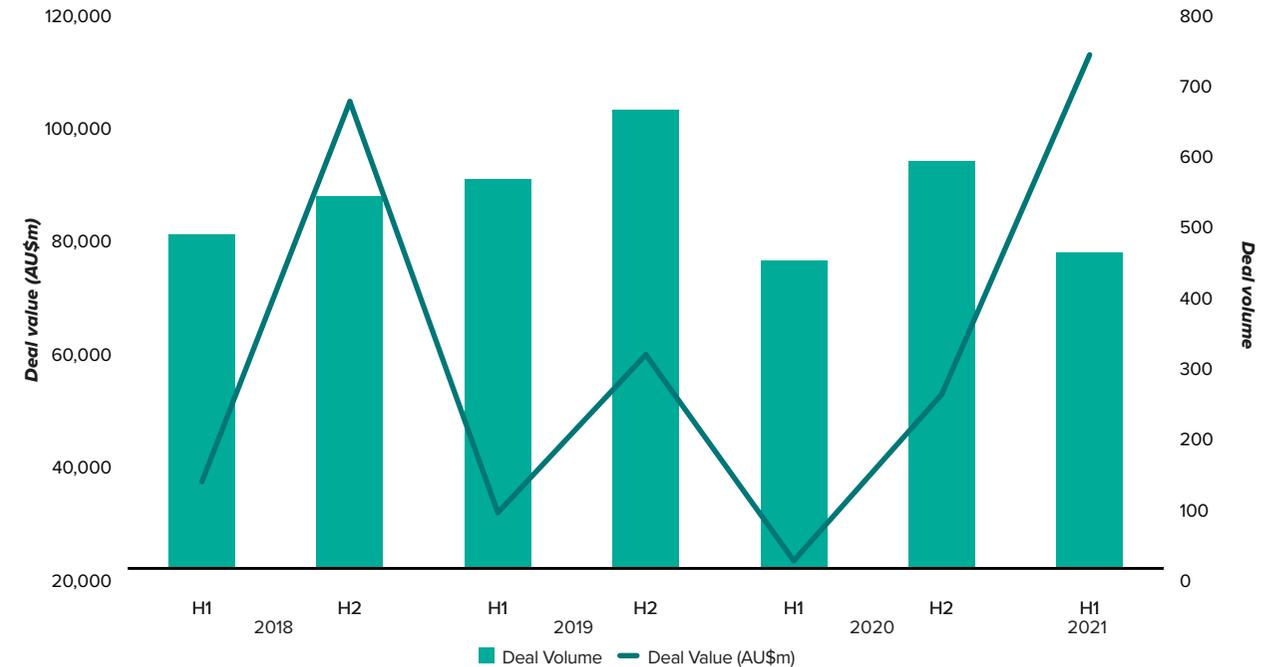
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INTRALINKS AUSTRALIA & NEW ZEALAND

Australian M&A: 1H21 snapshot

Despite a robust M&A market at the end of 2020, overall deals declined in 1H21:

- This sharp turn may suggest that ambitious dealmakers who pressed on with M&A in 2020 have been replaced by a more cautious group of buyers. Many may be awaiting greater visibility on Australia's vaccine rollout and whether further lockdowns will be imposed
- Closed borders and political decisions to restrict travel until mid-2022 may also be a deterrent, particularly for greater inbound deal flow
- Competition from public markets could also have contributed to decreasing deals to some extent: The robust IPO market that began in 4Q20 saw record listings and has remained hot for most of 2021

Australian M&A



447 deals

↓ **19%**

1H21 deal volume declined from pre-pandemic levels in 1H19 (551 deals)

AU\$110.8bn

↑ **271%**

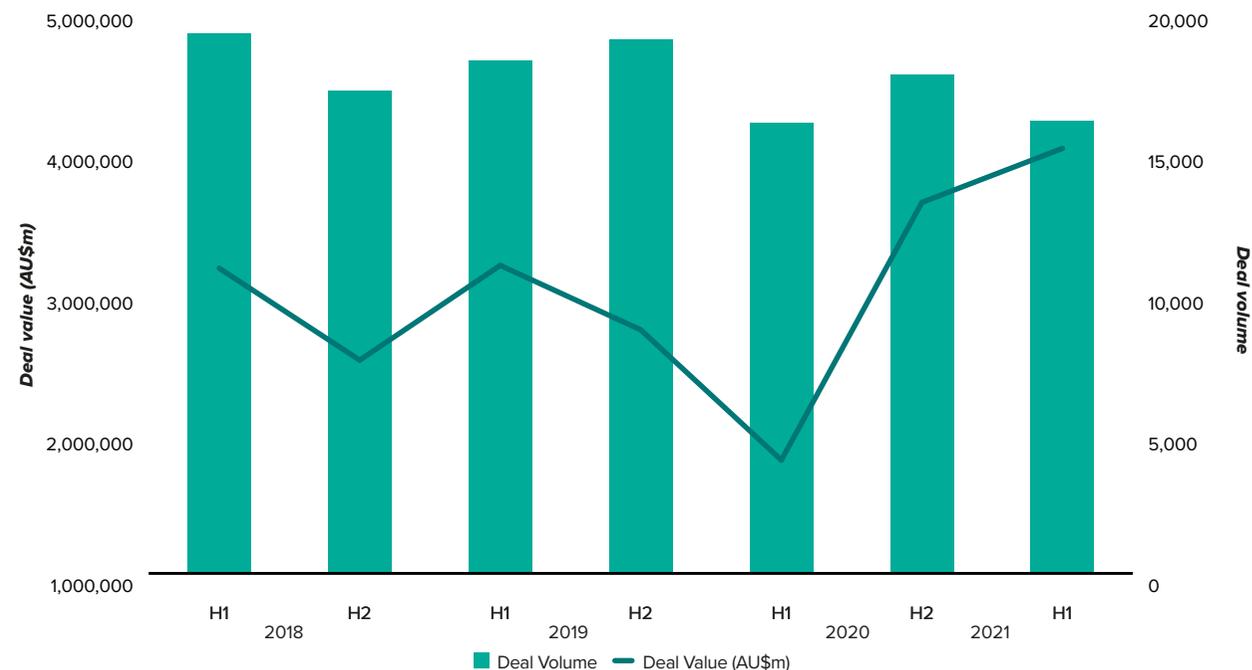
1H21 deal value increased from 1H19 (approx. AU\$30bn)

Global M&A

Carrying forward momentum from 2020, global M&A in 1H21 is showing its strength:

- Low interest rates, strong corporate earnings and economic growth in the US, Europe and Asia could see an M&A boom to year-end
- International dealmaking contributed to overall totals in 1H21 as cross-border M&A staged a comeback from deep declines earlier in 2020
- The strength of the North American market, namely the US, has helped propel deals, an impressive feat given limited successes in containing the spread of COVID-19

Global M&A



Global deals

↓ **12%**

1H21 deal volume (16,016)
declined from 1H19 (18,133)

Global value

↑ **26%**

1H21 deal value (approx. AU\$4tn)
increased from 1H19 (approx. AU\$3.1tn)

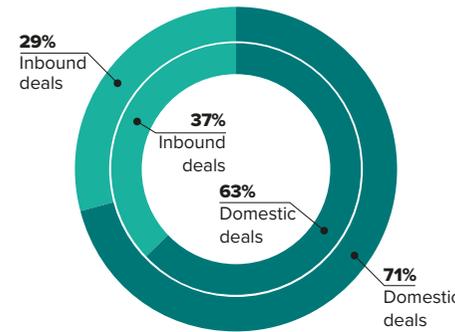
Deal drivers: Economic strength and the mid-market

Australia's key strength may lie in its economic resilience, now proudly back in positive growth territory:

- In 1Q21, the Australian economy expanded by a real 1.8% – no small feat considering Australia's rich world peers are on average smaller than before the health crisis
- Private investment and household consumption are leading a domestic-driven recovery, with the M&A market reflecting this trend as greater numbers of deals are being done between domestic participants
- Australia's mid-market has also helped in this drive, accounting for almost half (43%) of deals with disclosed values in 1H21
- Further dealmaking could unfold as larger corporations and multinationals transition out of survival mode, using mid-market M&A as a growth driver
- The mid-market proved its resolve during the pandemic, not least because many businesses in this segment were armed with the tech and digital means necessary to weather the health crisis

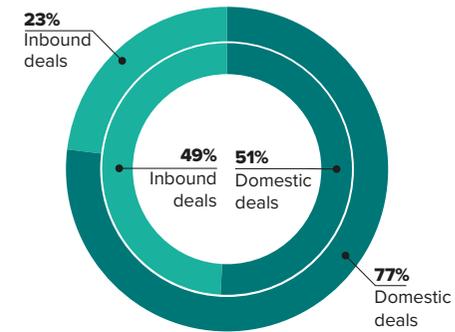
¹ "Australia's economy booms to pre-pandemic levels as consumers, businesses spend." Reuters, 4 June 2021.

Australian M&A: Domestic and inbound deal volumes



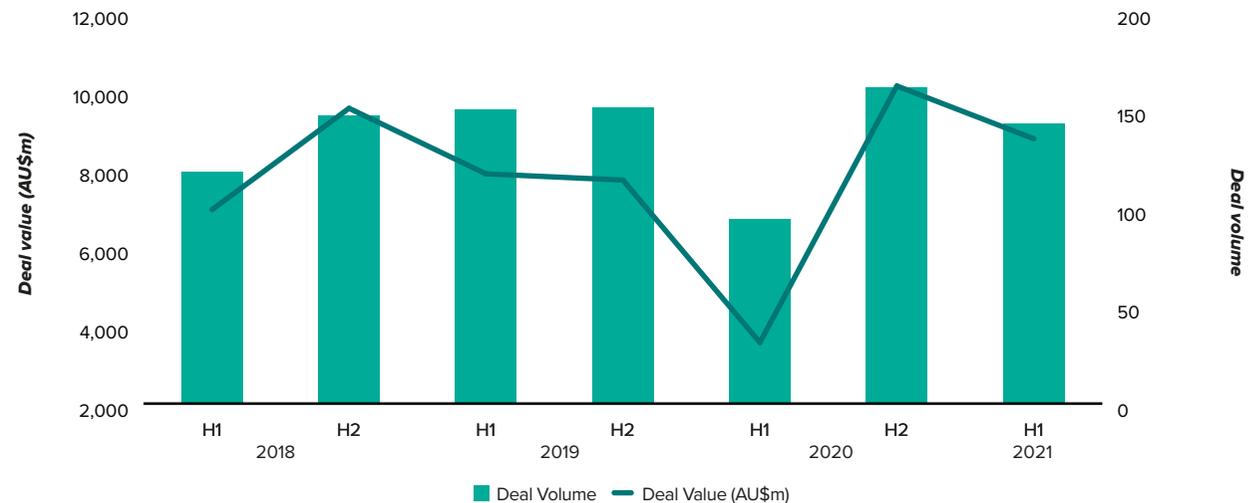
***Outer circle – 1H21; Inner circle – 1H19

Australian M&A: Domestic and inbound deal values



***Outer circle – 1H21; Inner circle – 1H19

Australian M&A: Mid-market trends

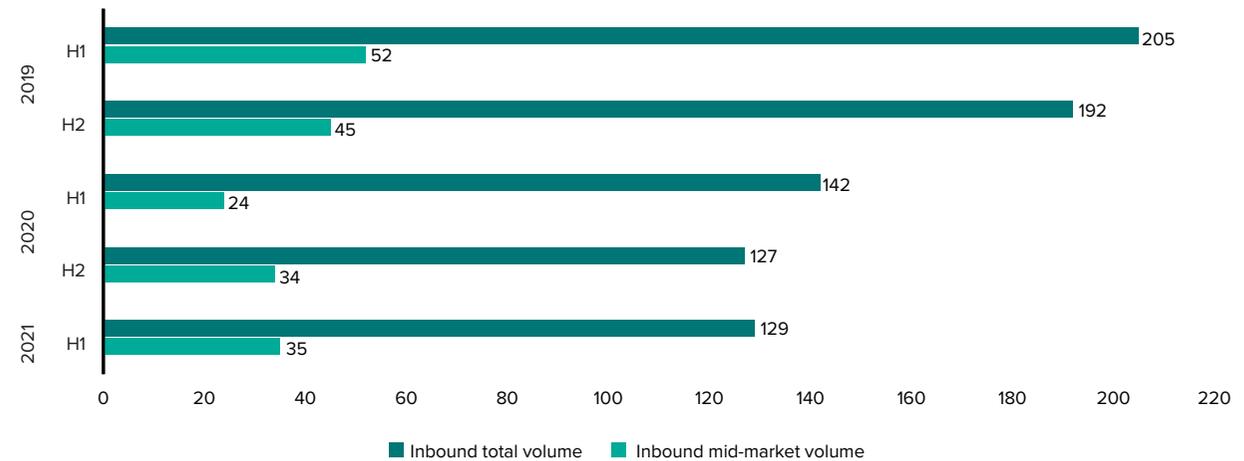


Investor focus: Foreign inbound and private equity

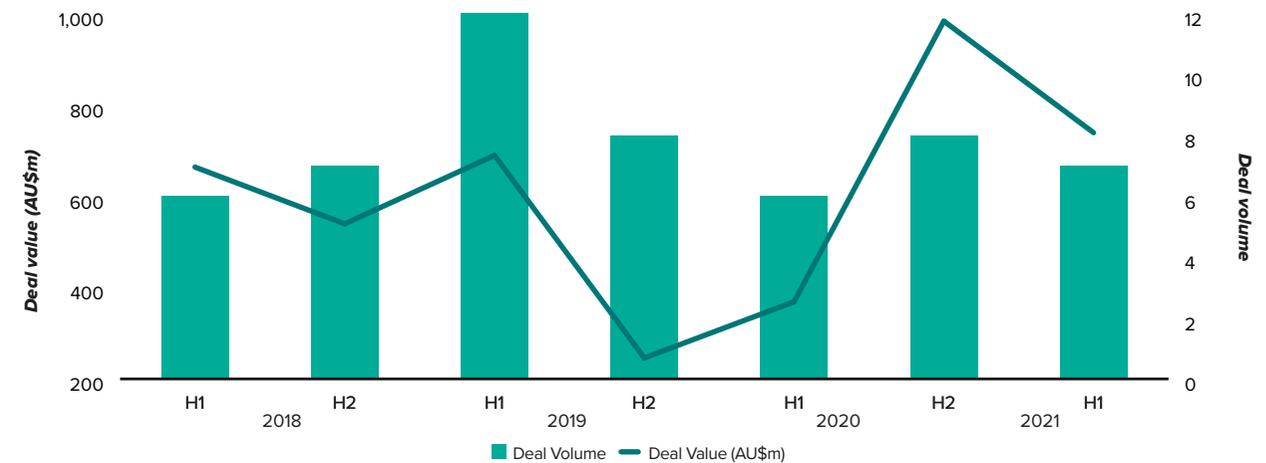
While inbound M&A is noticeably lower than before the pandemic, foreign dealmakers continue to leverage technology to navigate the new M&A environment, driven by confidence in the ongoing positive Australian outlook. Conversely, despite expectations of a busy year, private equity continues to remain largely seated on the sidelines:

- Despite border closures and limited inbound travel, foreign dealmakers still participated in 29% of deals in 1H21, and almost a quarter (23%) of deal dollars were from offshore buyers
- Compared to 1H19, inbound volumes in 1H21 declined 37% although inbound values have increased 77%
- Total private equity (PE) deals in 1H21 decreased 39% in volume but increased 134% in value from 1H19 – and overall PE activity accounted for a nominal 6% of total Australian M&A
- Mid-market PE activity in 1H21 was 7% higher in value but 42% lower in volume compared to 1H19

Australian M&A: Foreign inbound deals



Australian mid-market M&A: Private equity deals



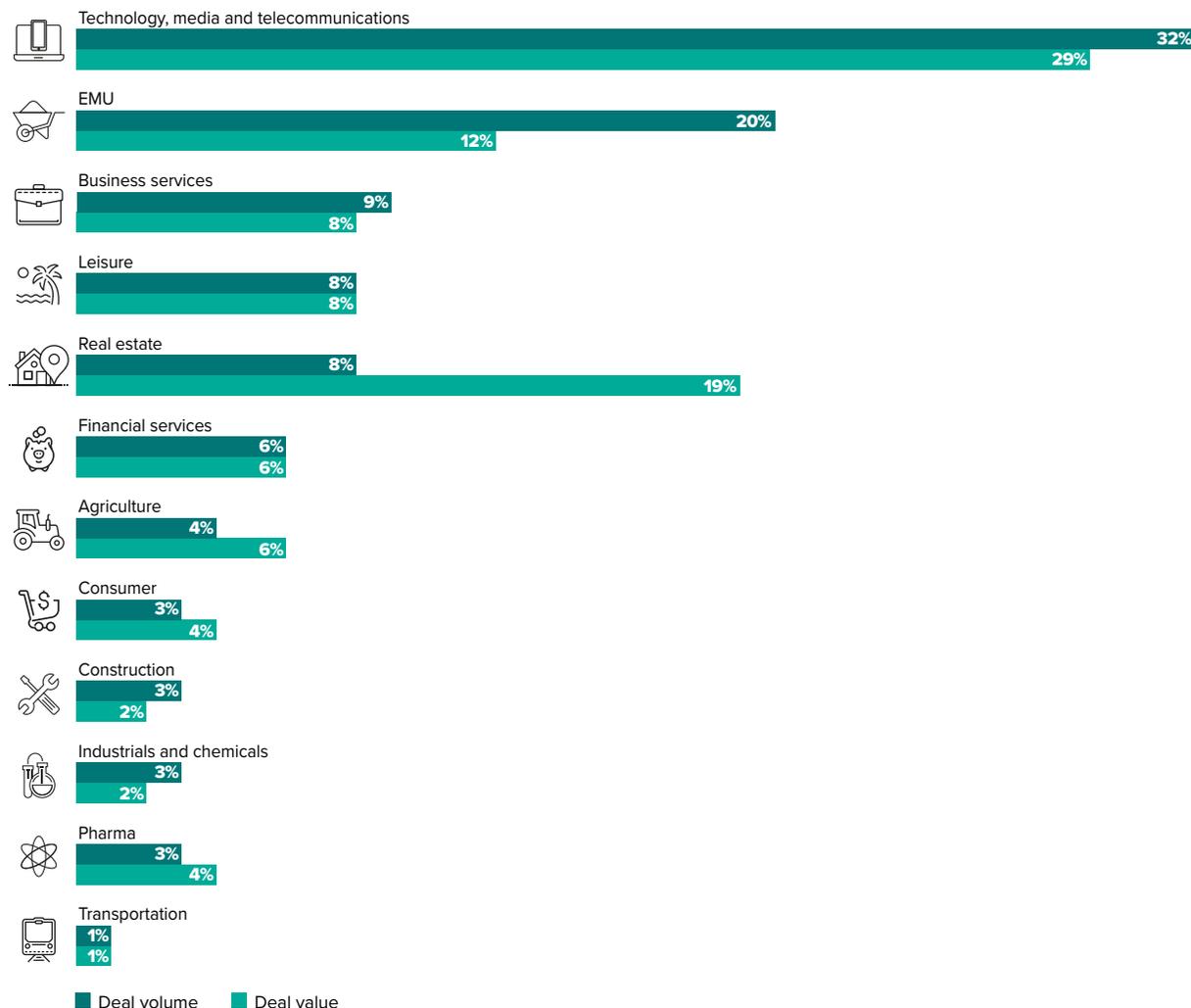
Sector watch

Mid-market TMT M&A is leading the way as dealmakers use tech deals to drive digital transformations to adapt to the challenges of the pandemic and an increasingly complex business environment. The energy, mining and utilities space also saw abundant deals as companies actively reassess strategies, selling assets to fund recovery efforts or exiting businesses that may not align with ESG frameworks.

Whilst insolvencies and restructurings are rising, activity has not been as robust as expected, after insolvency moratoriums were lifted earlier this year. Only time will tell what we see in 2H21, although stress in tourism and consumer/retail should provide ample room for consolidation and value creation.

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Australian mid-market M&A: Sector volume and value (1H21)



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Recovery, Turnarounds and Insolvency	Corporate Finance	Health and aged care
Tax Advice and Compliance	Corporate Governance	Hospitality
Private wealth services	International Business Advisory	Manufacturing
Estate Planning	Investment Advisory Services	Not-for-profit
Family Office Management	Succession Planning	Professional services
Investment Advisory Services	Superannuation Services	Property and construction
Philanthropy Services	Tax Advisory	Retail
Succession Planning	Technology and IT Consulting	
Superannuation Strategies	Valuations	
Tax Advice and Compliance		

Australian statistics



120+ partners



1,300+ people

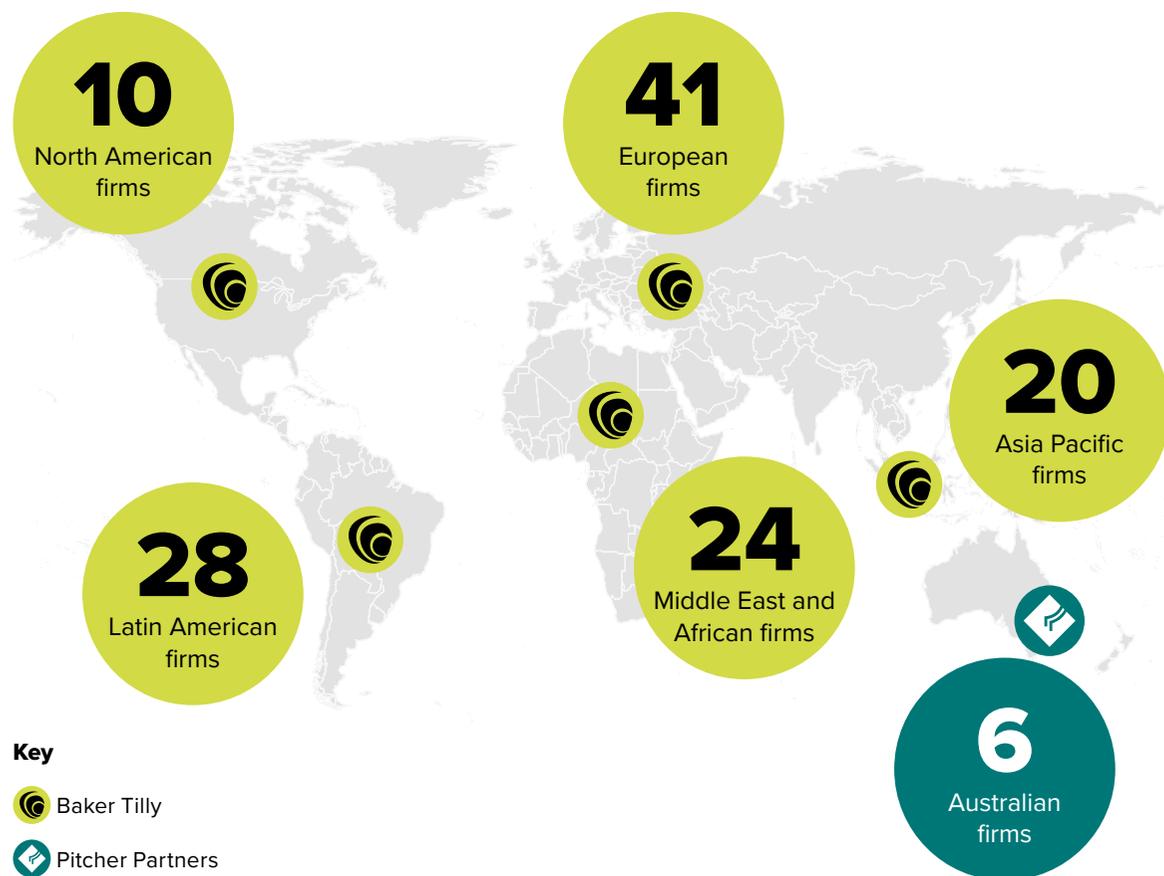


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\$4.04bn Worldwide revenue 2020 (USD)

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