Grant Thornton

The state of Australian manufacturing

2023 MANUFACTURING BENCHMARKS

While Australia's manufacturing sector still navigates disruption, opportunities for growth and development are on the horizon. Many are working towards expanding production and supporting profitability by improving efficiencies and productivity, enabling more sustainable measures.

Through our analysis of the financial data from 100 Australian mid-sized manufacturers, we know Australian manufacturers have a positive outlook with average year-on-year sales growing by 6.7 per cent in 2023. This growth can predominantly be attributed to increased capital expenditure and investing into emerging technologies. The outlook is particularly promising for business with revenue over $100m, whose scale has supported ongoing success through stronger forecasting linked to better pricing agreements and growing market shares due to their steady inventory.

However, cash flows have been heavily impacted by rising costs, inflationary pressures, and disruptions in supply chains. This has mainly affected manufacturers with turnovers under $40m, who face increasing profitability challenges and struggle with pricing uncertainty and maintaining production volumes. High competition and a lack of skilled labour has added to these challenges by increasing costs for businesses, creating a desire and sometimes need to adopt innovative solutions to increase production capacity. In response, the sector has increasingly embraced new and emerging technologies and sustainability measures to maintain sales margins and remain profitable.

Operating in a dynamic business landscape, pleasingly the sector still experiences government support. Initiatives like the National Reconstruction Fund, R&D Tax incentive, and state-driven programs are empowering mid-sized manufacturers to deliver on the growth ambitions and strengthening domestic capabilities.

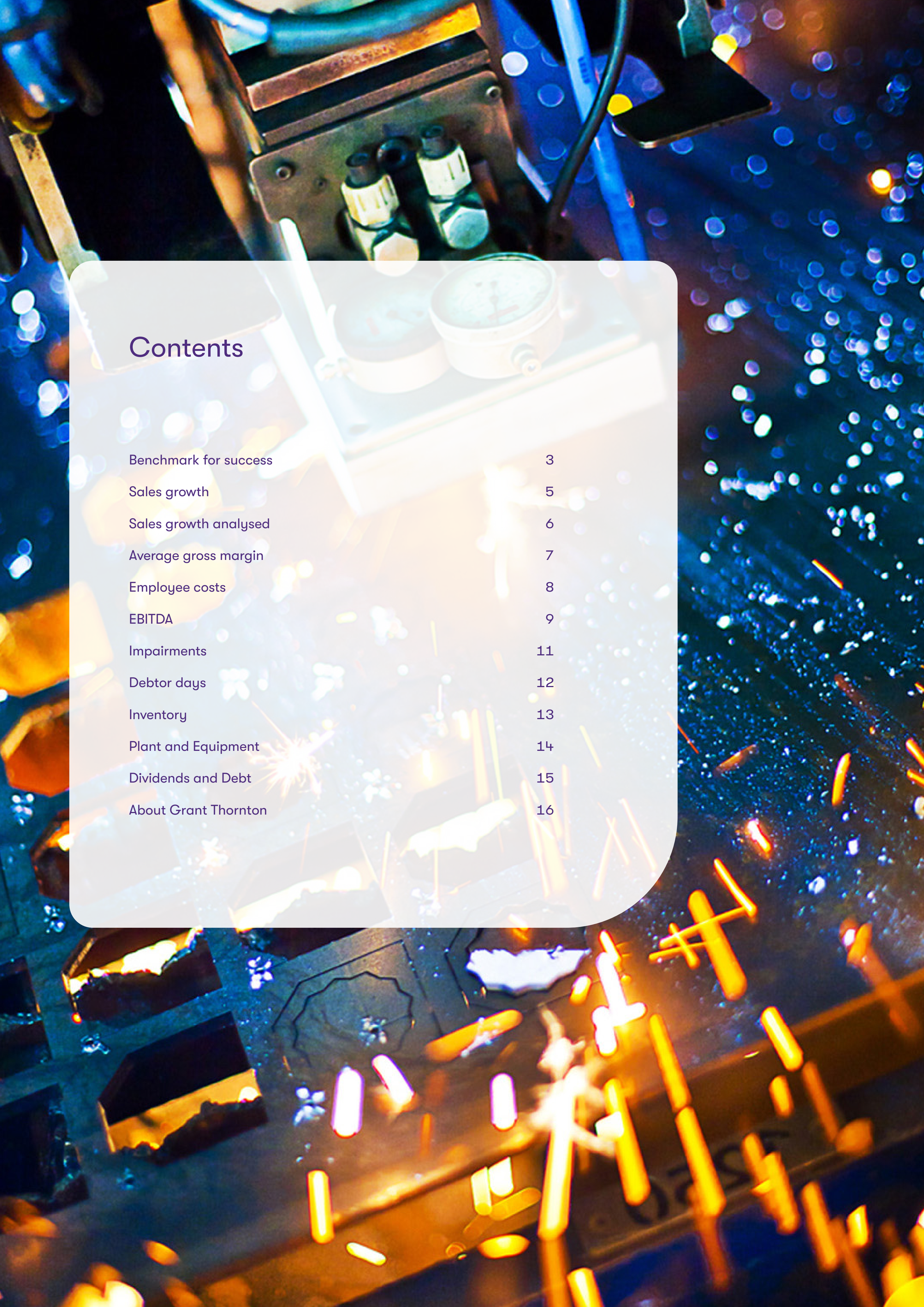
Our 2023 Manufacturing Benchmarking report offers a unique view of the market through insights from 100 Australian mid-sized manufacturers' financials. By understanding how your business performs against its competitors, you're empowered to identify risks, opportunities, reflect on its operational efficiency and be more informed to achieve sustainable growth.

For a deeper dive into these results in the context of your business, please get in touch

Michael Climpson
Partner & National Head of Manufacturing

Connect with me

For the purpose of this report, mid-sized manufacturers generally have an annual turnover of $20 million – $600 million.



Contents

Benchmark for success

What does great look like?

Top 10 performers – 2023 averages

- 29% sales growth
- 36% gross margin
- Reduction in profit before tax from 16% to 12%, indicating increased overhead costs across the board
- Consistent workforce spend with 2022, supporting the increase in gross margin year-on-year

Top 10 performers – Company profiles

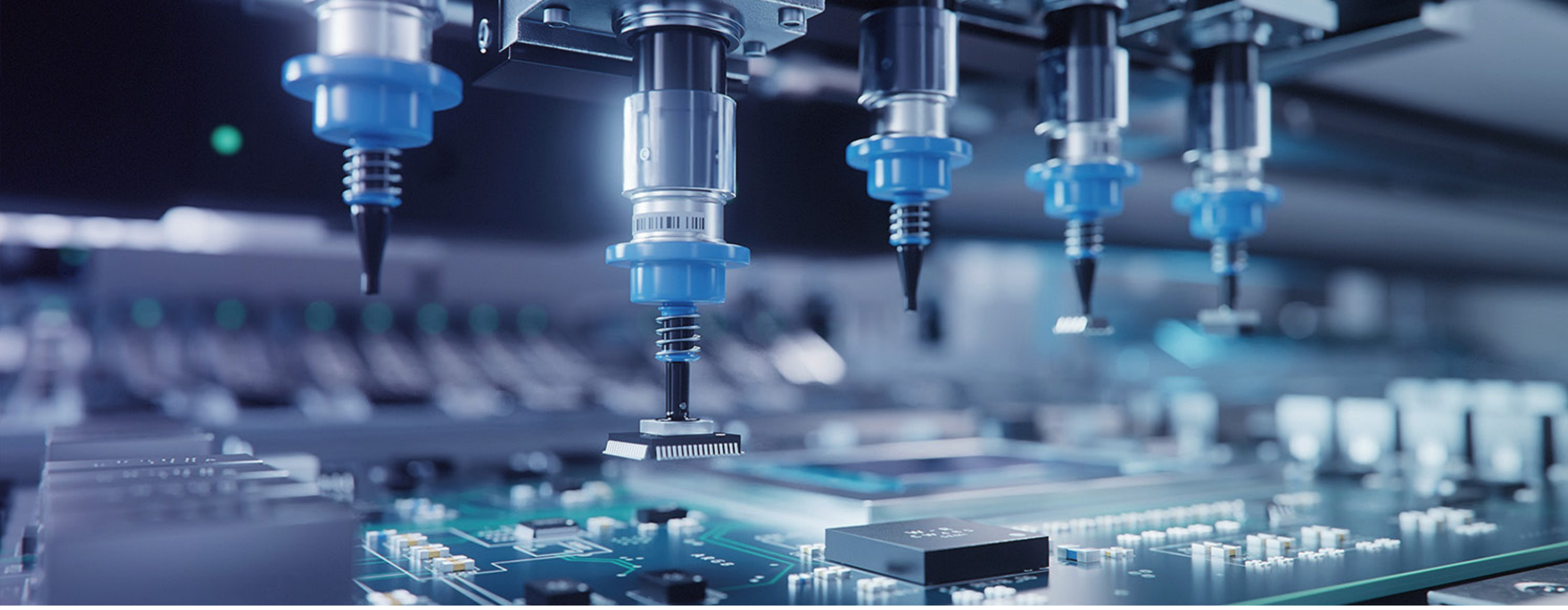
- 70% private, 30% listed
- 60% more that $100m revenue, and 40% less than $100m revenue
- Mix of manufacturing sub-sectors represented

Top 10 snapshot

The table represents the year-on-year performance of the top 10 performers from 2022 to 2023. Our key takeaways are:

- Continued trend in sales growth to 29% on the prior period, exceeding the previous average of 25% across these companies and significantly above the industry average of 7% growth.
- A slightly lower increase in gross margin in comparison to revenue growth, albeit still an increase observed. This is consistent with trends throughout the industry represented by increased raw materials costs directly impacting the gross margin.
- Employee costs have remained extremely consistent, which appears to be a key factor in maintaining strong financial performance in the current environment. Across the industry, significant increases have been observed in employee costs, therefore it appears that the top 10 performers have effectively managed employee costs resulting in increased gross margins.
- Despite growth observed in sales and gross margin, EBITDA and profit margins decreased as a percentage of revenue growth, despite increasing in dollars across the top 10. This is largely due to the sharp increase in revenues experienced during the year, combined with significant outlays in costs relating to administration and marketing expenses.
- Post COVID, capital expenditure has remained low at 1.9% consistent year-on-year.
- Dividends declared experienced a slight increase as a percentage of revenues.

Performance measures (% of revenue)	2023	2022
Sales median $000	236,172	183,300
Sales growth	29%	25%
Gross margin	36%	35%
Employee costs	18.10%	18.30%
EBITDA	16%	20%
Profit margin	12%	16%
Debtor days	53	54
Inventory turnover	4.1	3.9
Capex	1.90%	1.90%
Dividends paid (overall % of profit)	33%	31%



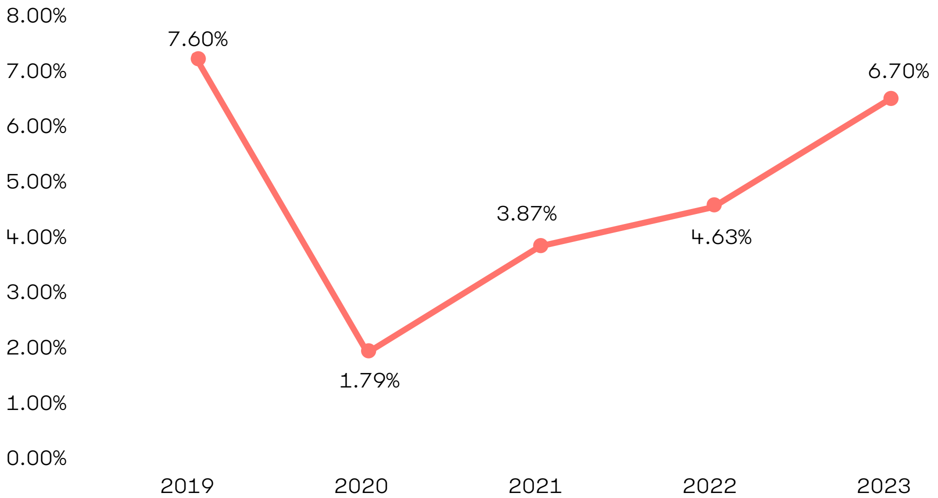
Sales growth

The impact of the initial COVID-19 outbreak has nearly been fully recovered, with 2023 presenting sales growth on the rise to pre-COVID results.

The industry has experienced overall growth of 7% in sales, in comparison to 5% in the prior year, demonstrating a recovery in global supply chain challenges following COVID-19. An increase was seen in all market sizes, however the greatest was seen in the $40m-$100m category, a large shift from the significant decrease in this category in the previous period (noting that this size company was impacted greatest by COVID).

Inflation has eased but remains at elevated levels, suggesting ongoing high sales growth for 2023/2024 can be expected.

Sales trend – year-on-year growth



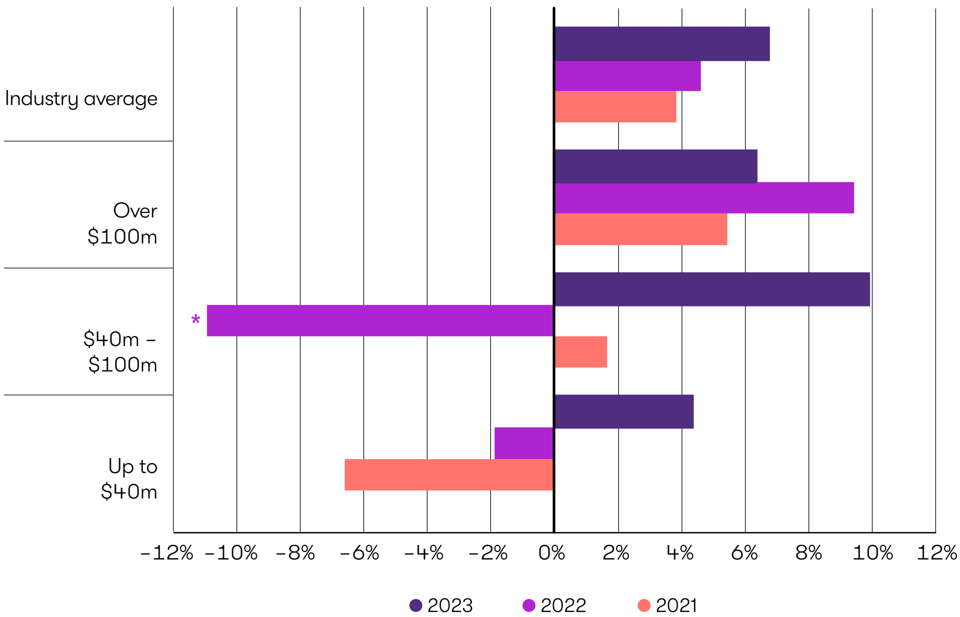
Sales growth analysed

29% of companies experienced a decrease in revenue during 2023, which has worsened from the prior period where 27% of companies experienced this decrease. This demonstrates that there are companies within the industry still experiencing the ongoing effects of COVID and consumer consumption behavioural changes.

However, 49% of companies experienced revenue growth in both 2023 and 2022, contributing greatly to the overall growth of the industry.

With new government grants available to the industry, an opportunity exists for further innovation and growth.

Sales trend by market size



* Some major divestments during 2022 have impacted this value. The medium value for 2022 was sales growth of 3.9%.

Sales growth	2023	2022	2021	2020	2019
Up to $40m	4%	-2%	-7%		
$40m - $100m	10%	-11%	2%		
Over $100m	6%	9%	5%		
Industry average	**6.70%**	**4.63%**	**3.87%**	**1.79%**	**7.60%**

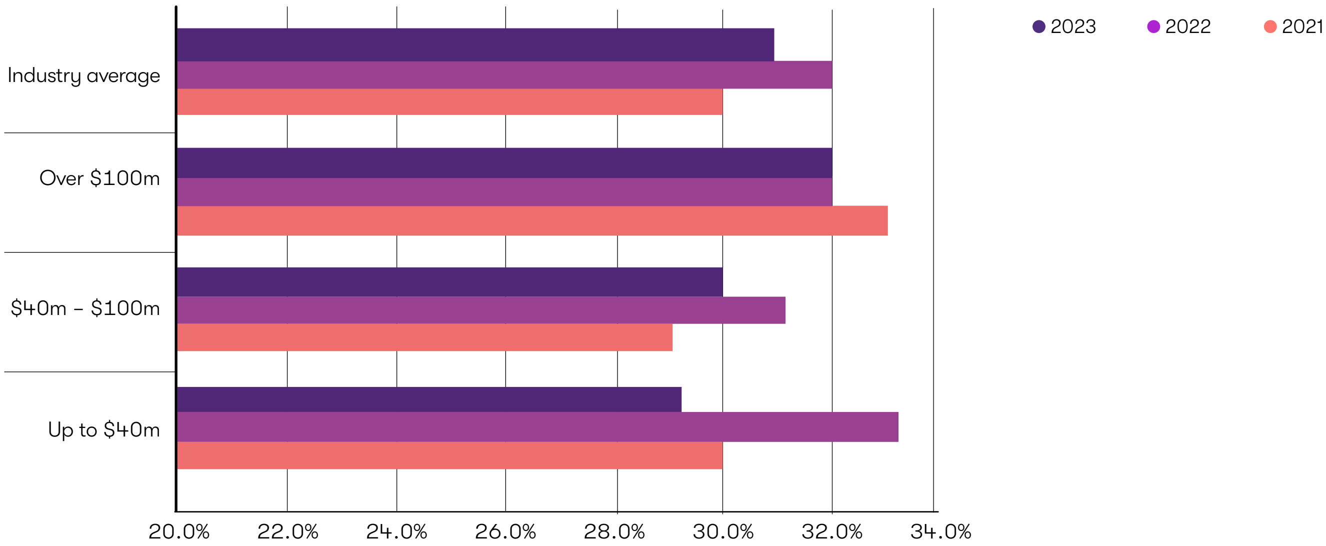
Average gross margin

We previously established that most manufacturers achieve a gross margin percentage within three percentage points of the year before. Consistent with prior year, gross margins are averaging close to 30% on every measure. This tells us that manufacturers are acutely aware of (and have successfully managed) their direct costs, with sales prices being frequently adjusted to match changes in the cost of raw materials and other direct costs.

It is evident however, that there is more pressure for smaller businesses to maintain margins in the current high inflationary environment.

Increases in employee costs, freight and other supply chain costs are resulting in lower margins for smaller businesses as they have been unable to adjust sales pricing at the same speed. Over $100m revenue catgeory businesses have been successful this year in achieving pricing adjustments to account for cost increases, maintaining their gross margin percentages.

Gross margin trend by market size



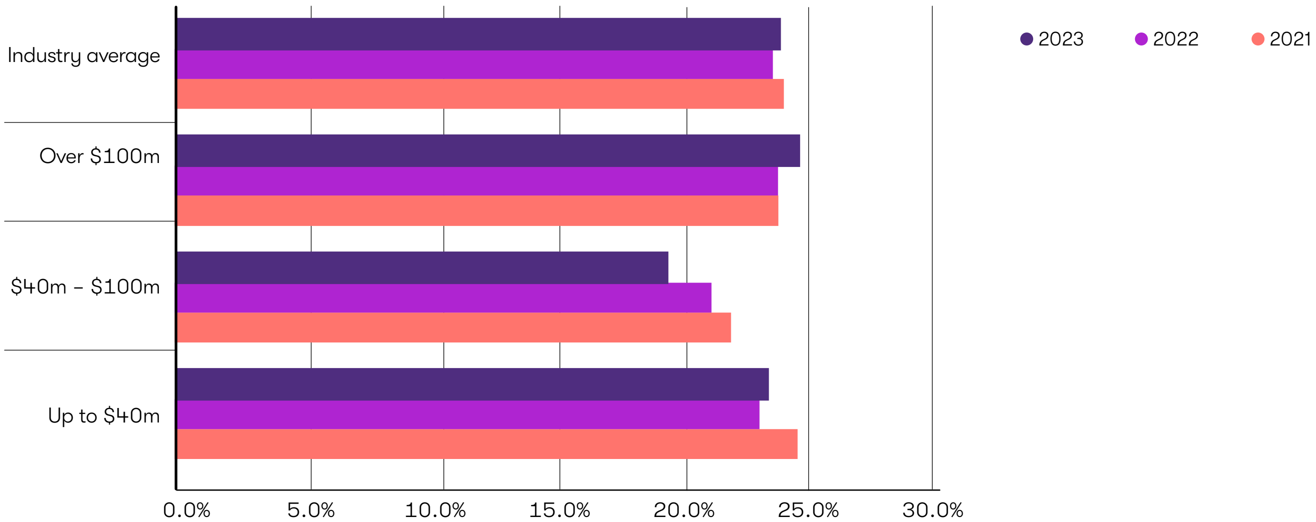
Gross margin	2023	2022	2021
Up to $40m	29%	33%	30%
$40m - $100m	30%	31%	29%
Over $100m	32%	32%	33%
Industry average	**31%**	**32%**	**31%**

Employee costs

With unemployment at historically low levels, the ability to attract and retain talent remains a high focus for manufacturers to maintain workforce stability and productive output.

Employee costs remaining at 24% means wage rises have kept pace exactly with sales growth.

Employee costs as a % of revenue



Employee costs as a % of revenue	2023	2022	2021
Up to $40m	23%	23%	25%
$40m - $100m	19%	21%	22%
Over $100m	25%	24%	24%
Industry average	**24%**	**24%**	**24%**

EBITDA

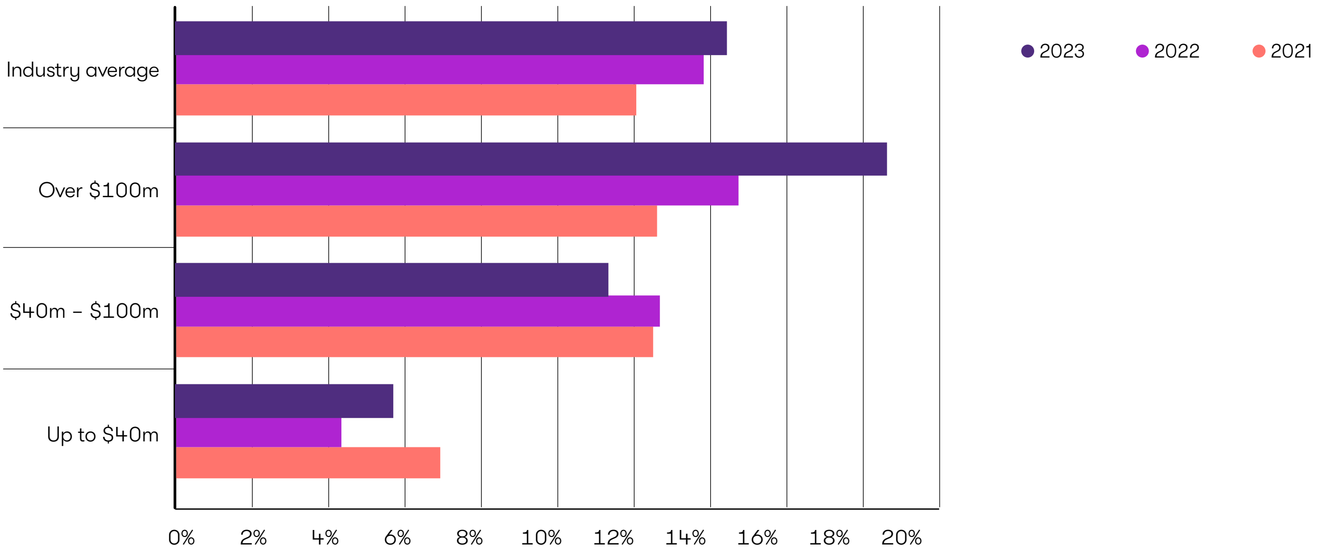
A consistent theme over the years is that increased scale improves margin percentages, and the over $100m turnover category again leads and has averaged 18% for 2023.

The up to $40m category does include a number of early stage manufacturers where they are investing for growth. Although a small number of significant outliers are removed from the results to avoid distortion, the aspect of early stage manufacturers does bring down the averages.

Businesses across the board have been largely successful in managing inflationary movements, however there is an overall slight reduction in average EBITDA which is likely a reflection of increase in costs, including employee costs, finance costs and inventory-related costs, which cannot be fully mitigated by higher sales, driving down overall margins. This was particularly evident for mid-size businesses.

Note the EBITDA results presented exclude the accounting for 'AASB 16 lease adjustments', and are normalised to present a trading result by removing any significant non-cash impairments or similar irregular events of significant financial impact.

EBITDA



EBITDA	2023	2022	2021
Up to $40m	6%	4%	7%
$40m - $100m	11%	13%	12%
Over $100m	18%	15%	12%
Industry average	**14%**	**14%**	**12%**

There is still a large gap between the top third performers and the rest. Scale plays a big part of it.

Further analysis of EBITDA	2023	2022	2021
Median	8.3%	9.9%	9.4%
Top third	23.3%	23.3%	21.7%
Mid third	8.8%	9.4%	9.5%
Bottom third	(2.6%)	1.7%	1.5%

Net profit before tax	2023	2022	2021
Up to $40m	(0.4%)	1.2%	3.4%
$40m - $100m	6.5%	7.2%	6.3%
Over $100m	11.2%	8.9%	6.4%
Industry average	9.7%	8.2%	6.0%

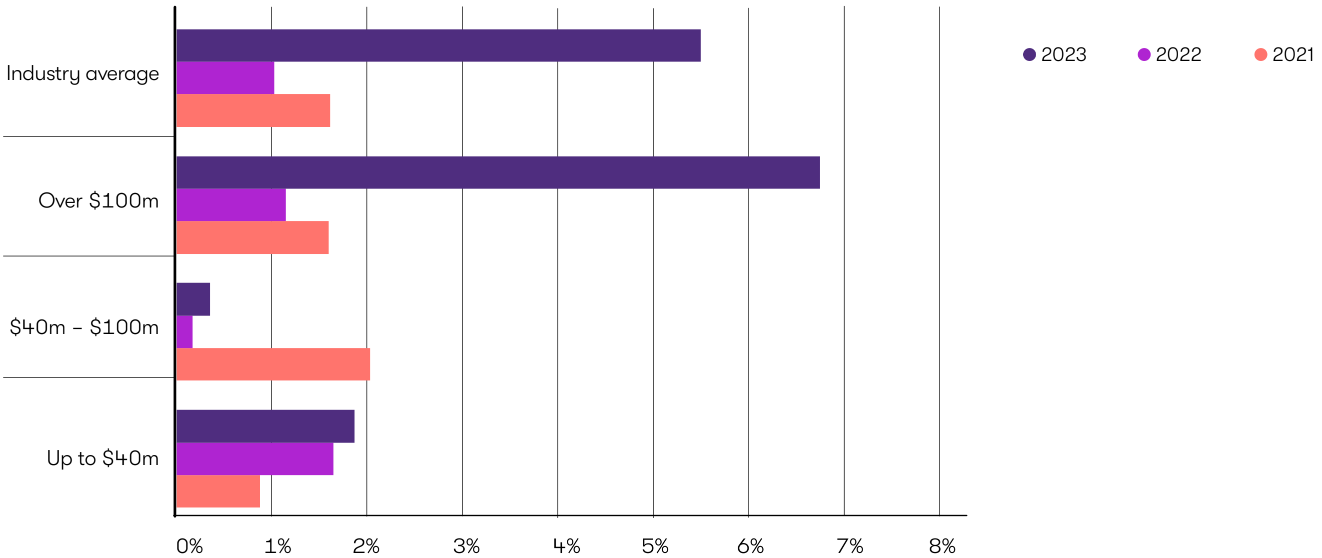
Impairments

Impairments of assets result from mandatory assessment under the Accounting Standards and can provide insights into management's outlook for the business and sector.

Four larger manufacturers (all ASX) recorded significant impairments during the year (average impairment was approximately $150m for these companies). In these instances, businesses have cited a downgraded forecast in light of increasing inflation, increasing interest rates, pressure of global supply chain and uncertainty around labour availability.

Balancing various macro factors will present a challenge for the sector, as manufacturers navigate the 'new normal'.

Impairment as a % of revenue



Impairments	2023	2022	2021
Up to $40m	1.82%	1.61%	0.85%
$40m - $100m	0.34%	0.16%	1.98%
Over $100m	6.60%	1.12%	1.56%
Industry average	**5.37%**	**1.00%**	**1.57%**

Debtor days

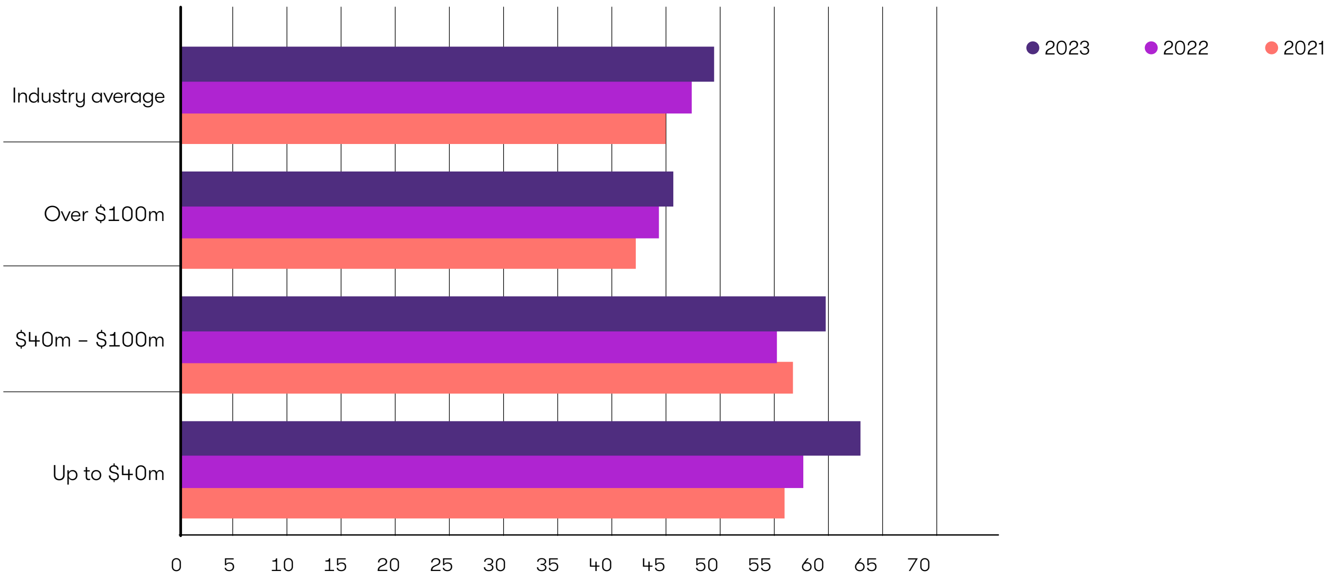
2023 saw a further increase to average debtor days. The largest increase is seen in businesses with revenue of less than $100m.

Notwithstanding this increase, debtor days are still significantly below their pre-COVID levels, where the industry average in 2019 was 62 days.

Unusually, liquidity was quite strong throughout the pandemic across many industries once the initial shock subsided and businesses resumed trading as best they could. This resulted in more favourable collection terms and businesses have largely been able to maintain this.

Debtor days continue to trend higher and may require extra focus.

Debtor days



Debtor days	2023	2022	2021
Up to $40m	62	57	55
$40m - $100m	59	55	56
Over $100m	45	44	42
Industry average	**49**	**47**	**45**

Inventory

Inventory turnover has continued to decline in 2023 as a result of an intended strategy to increase inventory holdings in response to serious supply chain issues in the years immediately following the pandemic. From 2022 to 2023, average inventory on hand increased by 27.7%.

A continuing trend from the previous year in which manufacturers have a delicate balance of optimal inventory levels to facilitate open orders, managing cashflow pressure for additional working capital requirements and mitigating the risk of future write downs through excess inventory.

Inventory	2023	2022	2021
Up to $40m	2.39	2.64	3.38
$40m - $100m	3.19	3.70	3.86
$100m+	3.44	4.26	4.47
Industry average	**3.29**	**4.00**	**4.32**

Plant and Equipment

Plant and equipment carrying values declining over the past three years largely reflects the pull back in investment during the 2020 and 2021 as COVID caused uncertainty for the future.

An increase in capital expenditure in 2023 compared to the previous year demonstrates confidence to reinvest in the sector. Governments remain supportive of the industry. Therefore it is important for manufacturers to take advantage of available grant opportunities to further business improvements.

Plant and Equipment	2023	2022	2021
Up to $40m	17.56%	14.45%	13.63%
$40m - $100m	7.43%	9.16%	11.41%
Over $100m	19.81%	22.05%	26.68%
Industry average	**18.03%**	**19.80%**	**23.83%**

Capital Expenditure	2023	2022	2021
Up to $40m	15.18%	9.55%	4.72%
$40m - $100m	1.62%	1.94%	3.52%
Over $100m	7.35%	6.00%	5.31%
Industry average	**7.67%**	**5.73%**	**5.12%**

Dividends and Debt

For 2023, the dividend paid ratio has largely remained consistent as a percentage of revenues and equity. Dividends paid in 2021 stand out as being much higher as dividends were held back in 2020 with the uncertainty at the time.

Dividends and debt	2023	2022	2021
Industry average as a % of revenue	3.3%	3.2%	3.7%
Industry average as a % of PBT	33.6%	39.0%	61.9%
Industry average as a % of equity	4.6%	4.6%	5.7%

Debt to equity ratio	2023	2022	2021
Up to $40m	19%	16%	20%
$40m - $100m	27%	29%	34%
Over $100m	26%	27%	32%
Industry average	**25%**	**36%**	**31%**

About Grant Thornton

ABOUT THE DATA

The data is largely extracted from audited financial statements, the majority being Grant Thornton clients. There is an element of judgement applied in the analysis, including normalising out of the averages any major outliers.

Data spread	
Sales up to $40m	32
Sales $40m - $100m	32
Sales over $100m	36
	100

At Grant Thornton, care is just as important as capability because we believe that client experience is as important as the outcome. We strive to provide a strikingly different experience – one that's more personal, proactive, authentic and agile. To achieve that, we focus on investing in and building our relationship with our clients.

Grant Thornton Australia is a member firm of the Grant Thornton global network – one of the world's leading independently-owned and managed accounting and consulting firms. With over 1,300+ people across five states, we have the scale to meet changing needs – while retaining the agility required to keep our clients one step ahead.

More than 68,000 Grant Thornton people globally are focused on making a difference to clients, colleagues and the communities in which we live and work. Through this membership, we access global resources and methodologies that enable us to deliver consistently high-quality outcomes for owners and key executives.

Find out more

$293m
Local revenue (AUD)

176
Partners Nationally

$7.2b
Global revenue (USD)

1,300+
People Nationally

6
Offices Nationwide

68,000+
People Globally

750+
Offices Globally

145+
Markets

KEY CONTRIBUTORS

Michael Climpson
Partner & National Head of Manufacturing
+61 3 8320 2158
michael.climpson@au.gt.com

David De Fazio
Director, Audit & Assurance
+61 3 8663 6227
david.defazio@au.gt.com

Jessica Tenace
Director, Audit & Assurance
+61 3 8663 6185
jessica.tenace@au.gt.com

Joanna Psihogios
Senior Manager, Audit & Assurance
+61 3 8663 6244
joanna.psihogios@au.gt.com

Adelaide
Grant Thornton House
Level 3, 170 Frome Street
Adelaide SA 5000
T +61 8 8372 6666

Brisbane
Level 18,
145 Ann Street
Brisbane QLD 4000
T +61 7 3222 0200

Cairns
Cairns Corporate Tower
Level 13, 15 Lake Street
Cairns QLD 4870
T +61 7 4046 8888

Melbourne
Collins Square
Tower 5, 727 Collins Street
Melbourne VIC 3000
T +61 3 8320 2222

Perth
Central Park, Level 43,
152–158 St Georges Terrace
Perth WA 6000
T +61 8 9480 2000

Sydney
Level 17,
383 Kent Street
Sydney NSW 2000
T +61 2 8297 2400

Grant Thornton

grantthornton.com.au