Grant Thornton

Manufacturing on the rise

2022 BENCHMARKS FOR AUSTRALIAN MID-SIZED MANUFACTURERS

Foreword

The Manufacturing sector has truly been critical to our national resilience throughout the COVID-19 pandemic and in our recovery. Manufacturing makes many contributions to our lives and our economy by encouraging commercialisation and R&D, creating efficiencies, generating export activity, and driving the production of personal protective equipment and medical equipment throughout the pandemic.

While the sector has shown strength, it isn't immune to major challenges – including skill and labour shortages, supply chain gaps and finding its place in a highly competitive global marketplace.

But there's light at the end of the tunnel with major investment into the sector as a result of a strong push by Government for manufacturers to scale up, establish Australia as a manufacturing nation, and position itself as a strategic partner in global supply chains. This includes the Modern Manufacturing Initiative, Patent Box, the R&D Tax incentive, multiple state-run initiatives, enterprises to modernise and improve Australia's trade system and support Australian exporters. Many of these are specifically targeted at mid-sized manufacturers and play a key role in bringing these ambitions to scale up domestic capabilities to life.

This Manufacturing Benchmarking report provides a unique view of the market, how mid-sized manufacturers are tracking in the current environment, and how our clients are performing against their competitors. Now in its seventh year, this report helps organisations assess their performance against industry benchmarks across a number of data points – including sales trends, gross margins, workforce costs, inventory lockup, capex – and highlights avenues for improvement.

Using a sample of 100 Australian mid-sized manufacturers, these insights may help you to understand areas of risk, identify opportunities, and can help you assess your business against your peers. For more information around how you benchmark against your competitors and what opportunities you can leverage, please get in touch.

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Read Bio

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

Benchmark for success

What does great look like?

Top 10 performers – 2022 averages

- 28% sales growth
- 43% gross margin
- Increased dividend return to shareholders. This could be a sign of confidence in the future outlook
- Increased workforce spend however at a rate that did not keep up with sales growth

Top 10 performers – Company profiles

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

Top 10 performers – Comparison of 2018 to 2022

Performance measures (% of revenue)	2018	2022
Sales growth	21%	28%
Gross margin	44%	43%
Employee costs	20%	17%
EBITDA	28%	28%
Capex	5.4%	2.1%
Dividends paid (overall % of profit)	25%	35%

The above table represents different companies that made the Top 10 in 2018 vs those that made the Top 10 in 2022. Our key takeaways:

- Exceptional 28% sales growth, exceeding the previous average of 21%
- Similar trends with strong 43% gross margin
- Employee costs down to 17%, raising questions around how sustainable this is
- Similar trends for EBITDA average at a lofty 28%
- Capex down to 2.1% really stands out, suggests quite some caution post COVID-19 around investment in capex
- Dividends declared experienced strong growth at 35% of profit

Top 10 snapshot

Performance measures (% of revenue)	2021	2022
Sales median $000	97,580	135,200
Sales growth	9%	28%
Gross margin	40%	43%
Employee costs	19%	17%
EBITDA	15%	28%
Profit margin	17%	24%
Debtor days	52	50
Inventory turnover	3.5	3.3
Capex	2.4%	2.1%
Dividends paid (overall % of profit)	31%	35%

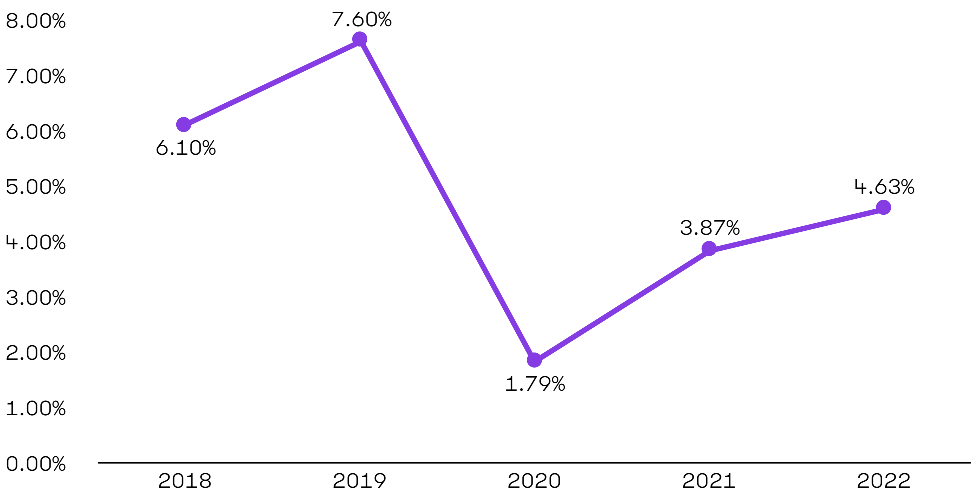
Pandemic shock reflected in sales figures

The impact of the initial COVID-19 outbreak is clear in the numbers, with a sharp decline in sales growth in 2020.

Since then the industry has experienced overall sales growth of 4.6%. While the growth rate is trending upward, it continues to be impacted by global supply chain challenges.

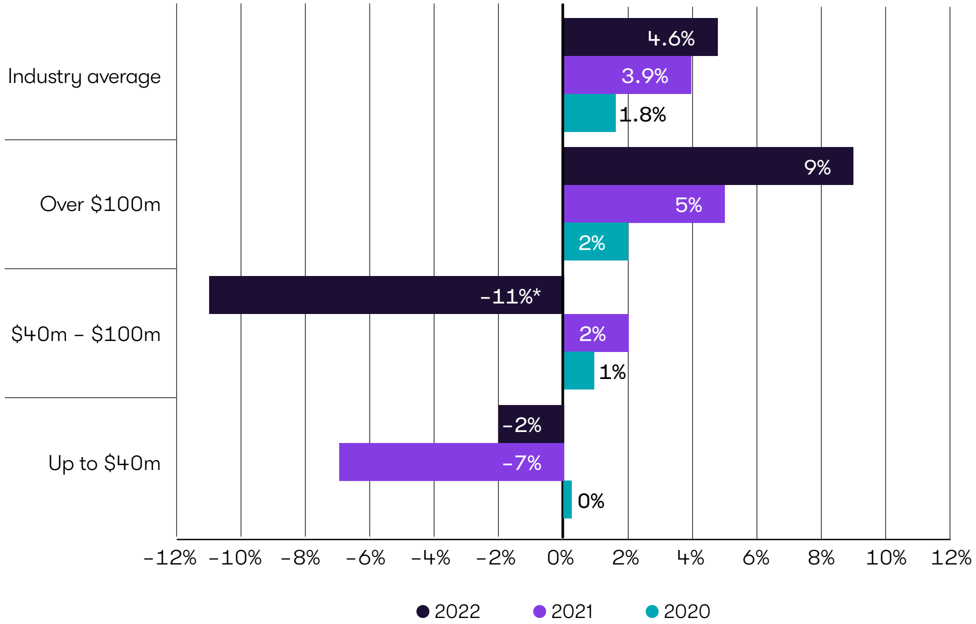
As we are experiencing high inflation, sales growth for 2022/2023 will likely increase significantly.

Sales trend – year-on-year growth



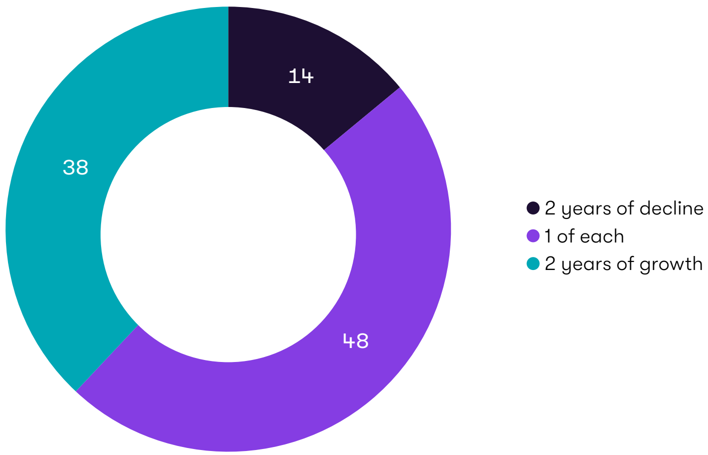
Sales growth steadily increasing

Sales trend by market size



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

Analysis of growth vs decline: 2021 and 2022



27% of companies experienced a decline in revenue during 2022, an improvement on a concerning 45% of companies that experienced a decline in 2021.

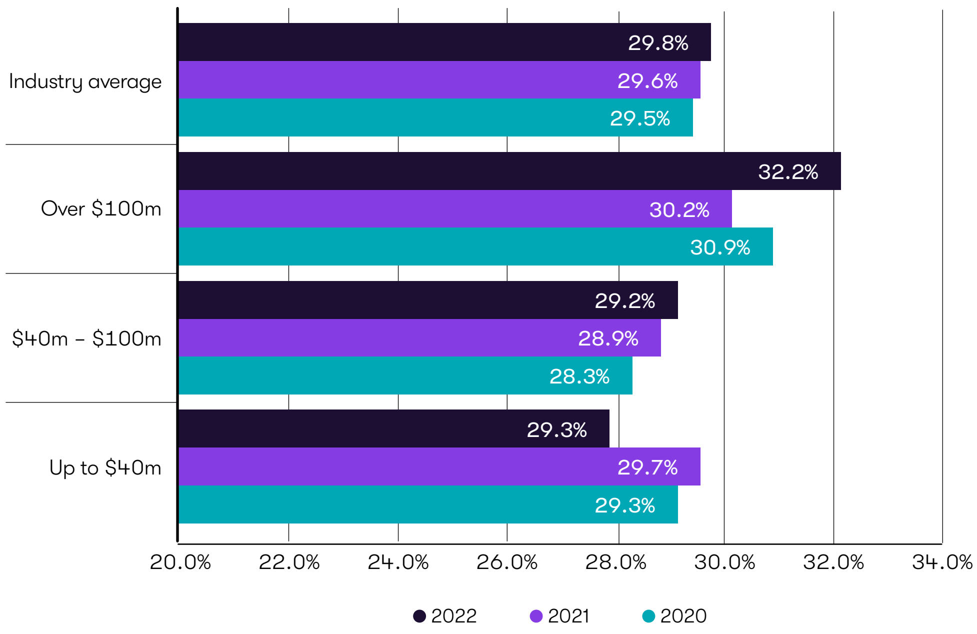
Over the past two years, 48% of companies experienced a decline in either of the past two years.

The high volatility in earning is also attributed to government support (JobKeeper), and government stimulus which has boosted 2021, but then tailed off affecting the 2022 comparative results.

Average gross margin

	2022	2021	2020
Up to $40m	27.9%	29.7%	29.3%
$40m - $100m	29.2%	28.9%	28.3%
Over $100m	32.2%	30.2%	30.9%
Industry average	**29.8%**	**29.6%**	**29.5%**
Average	29.3%	29.1%	28.9%
Median	29.3%	28.5%	28.3%

Sales trend by market size



73% of manufacturers achieved a gross margin percentage that was within 3 percentage points of the year before.

Gross margins are consistently averaging around 30% on every measure. This tells us that manufacturers are acutely aware of their direct costs, and sales prices are frequently adjusted to match changes in the cost of raw materials and other direct costs. The challenge for 2022/2023 will be the high inflationary environment that businesses are not accustomed to. The headline anticipated inflation number for the December 2022 quarter is 7%, however there are many actual cost increases that far exceed that. Supply chain issues has seen the cost of raw materials increase significantly. Well known cost increases that have doubled or more include freight costs and energy costs.

Manufacturers will need to make meaningful adjustments to sales prices to maintain an average 30% gross margin for the years ahead.

Employee costs

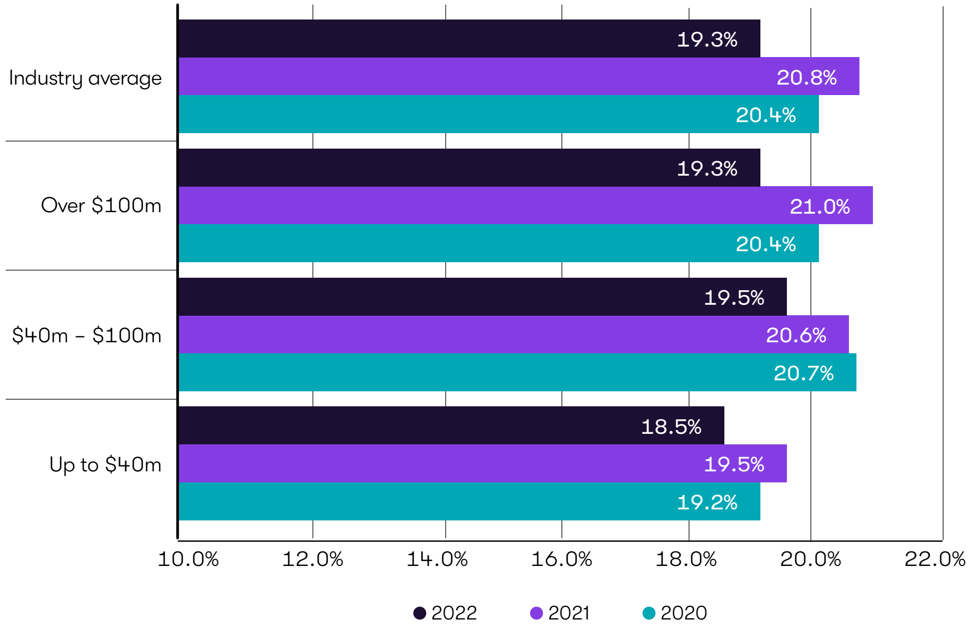
	2022	2021	2020
Up to $40m	18.5%	19.5%	19.2%
$40m - $100m	19.5%	20.6%	20.7%
Over $100m	19.3%	21.0%	20.4%
Industry average	**19.3%**	**20.8%**	**20.4%**

Staff costs as a percentage of sales are between 1%–1.7% lower compared to the previous year across all market segments. A shortage of workers and unavailability due to illness has meant that businesses have not been able to grow their workforce at the same rate as revenues.

In addition, many manufacturers have been hesitant to add to the cost base of their business due to prevailing uncertainty in the market.

2022 also saw the beginning of strong inflationary pressures. Wage increases coupled with returning workforce capacity mean manufacturing businesses will need to closely monitor workforce efficiency.

Employee costs as a % of revenue



EBITDA

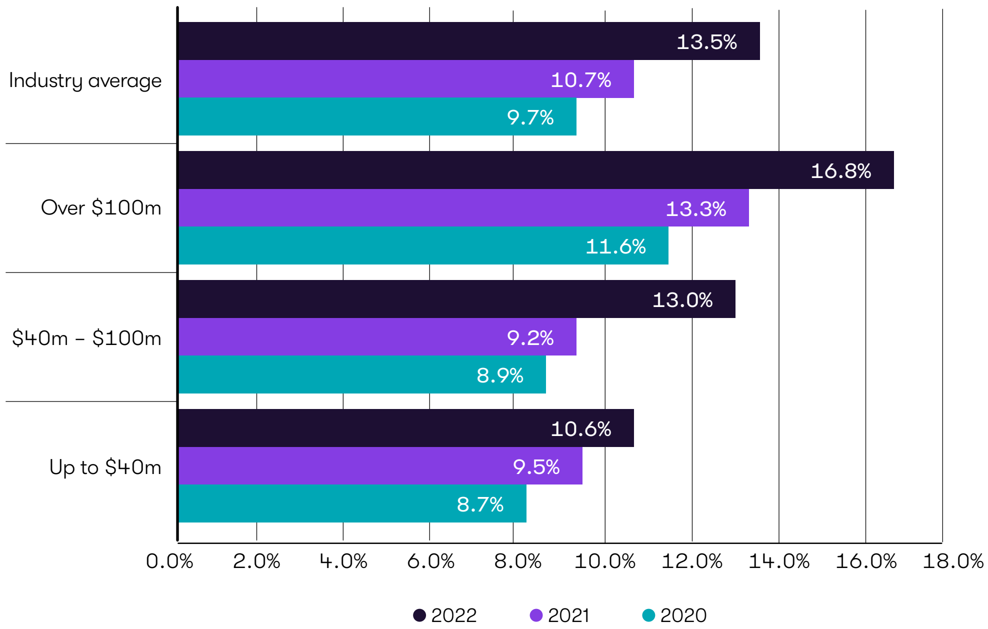
	2022	2021	2020
Up to $40m	10.6%	9.5%	8.7%
$40m - $100m	13.0%	9.2%	8.9%
Over $100m	16.8%	13.3%	11.6%
Industry average	**13.5%**	**10.7%**	**9.7%**

Note the EBITDA results presented exclude the accounting for 'AASB 16 lease adjustments'.

A consistent theme over the years is that increased scale improves margin percentages, and the over $100m turnover category again leads and has averaged 16.8% EBITDA for 2022.

However, pleasingly, all size categories have shown continued EBITDA improvement over the three years.

EBITDA



Further analysis of EBITDA	2022	2021	2020
Median	11.8%	9.5%	8.1%
Top third	23.6%	21.9%	19.4%
Mid third	11.6%	9.6%	7.9%
Bottom third	3.6%	3.0%	1.9%

The median results trend similar to the average, however to note the median is lower in all three years. This means mid-sized manufacturers that are performing well are really outperforming.

Breaking the data down into thirds shows a striking range in the results, considering the numbers are averages across 33 manufacturers in each third.

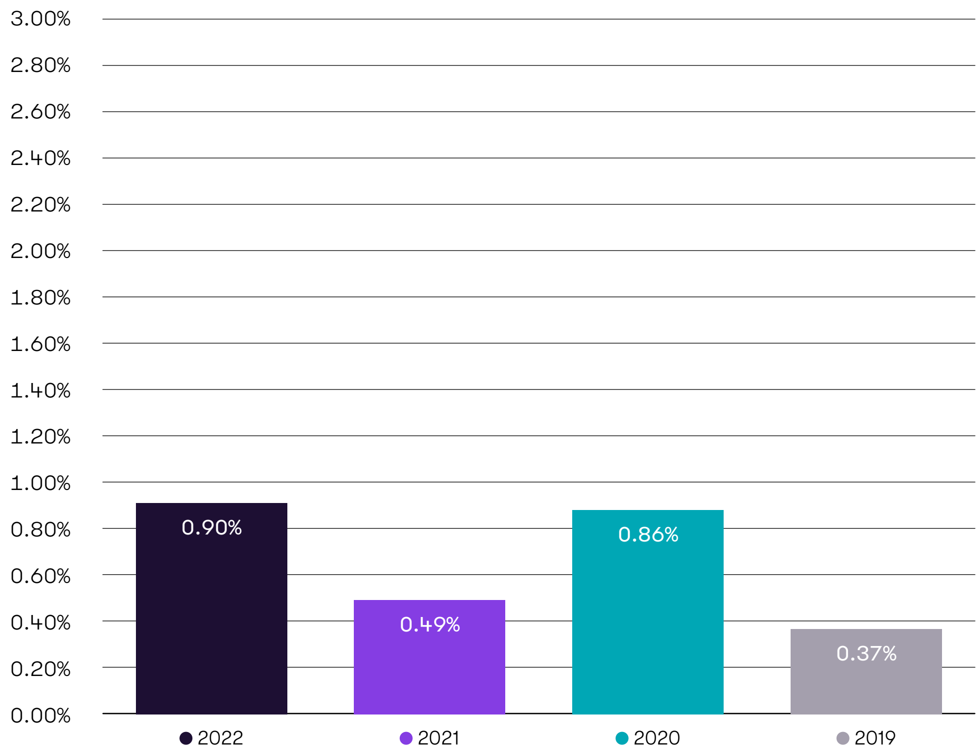
Across 300 results (100 manufacturers x three years), the average percentage point uplift from profit before tax to EBITDA is 4.4%. And this is the EBITDA we have always known, i.e. excluding the accounting for AASB 16.

Impairments

	2022	2021	2020	2019
Industry average	0.90%	0.49%	0.86%	0.37%

Impairments of non-current assets result from a mandatory assessment under Accounting Standards. It requires Boards and Management to assess the future cash flows, hence can be generally representative of the outlook. Impairments remain very low indicating that the 2022/2023 outlook remains reasonably positive, even if the common narrative may suggest otherwise.

Impairment as a % of revenue



Debtor days

	2022	2021	2020
Up to $40m	48	48	49
$40m - $100m	56	56	60
Over $100m	44	41	48
Industry average	**47**	**44**	**52**

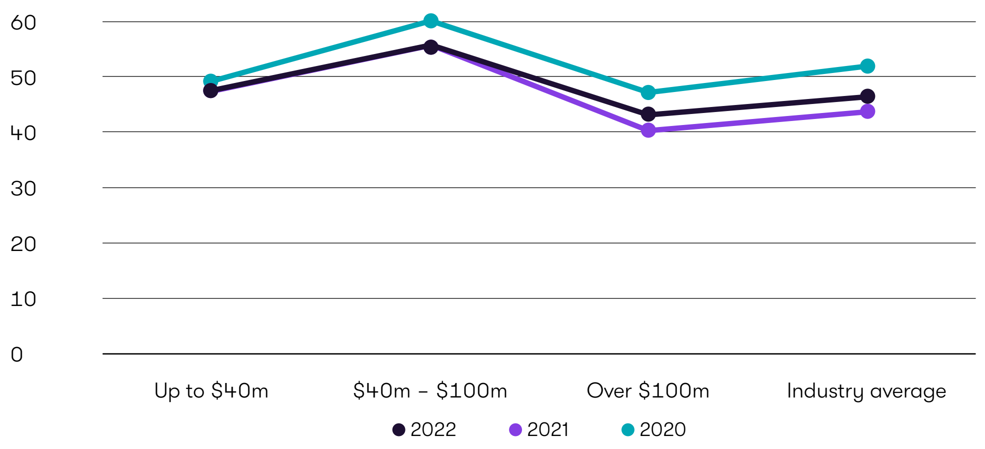
2022 saw a slight increase to debtor days partly due to revenue increases, as higher sales leads to higher receivables.

However, in another good sign for the industry, 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.

It will be interesting to see if debtor days return to pre-pandemic levels when liquidity tightens.

Debtor days



Inventory

	2022	2021	2020
Inventory turnover	3.71	4.05	3.95
Inventory held as a % of sales	20.4%	17.2%	18.2%

Inventory turnover has declined in 2022 largely a result of increased holdings. We saw average year-end inventory decline by 4% from 2020 to 2021, and as supply chain issues became set in, the need to hold more inventory became apparent.

From 2021 to 2022 we saw an average 16% increase in the level of inventory held at year-end. This means manufacturers will be experiencing cash flow pressure as a result of the additional working capital requirements. It will be important that businesses continue to evaluate the optimum level of inventory to hold.

Plant and Equipment

Plant and Equipment	2022	2021	2020
Up to $40m	11.22%	11.95%	11.56%
$40m - $100m	20.63%	13.18%	14.54%
Over $100m	14.48%	16.78%	16.11%
Industry average	**15.44%**	**13.97%**	**14.07%**

Capital Expenditure	2022	2021	2020
Up to $40m	2.04%	2.54%	2.27%
$40m - $100m	1.48%	2.24%	1.89%
Over $100m	3.11%	2.76%	3.37%
Industry average	**2.21%**	**2.51%**	**2.51%**

There has been a slight contraction in the capex spend since the pandemic, down to 2.21% average for 2022. It will be interesting to see whether investment in new equipment will increase in future years.

ADDITIONAL INFORMATION TO CONSIDER

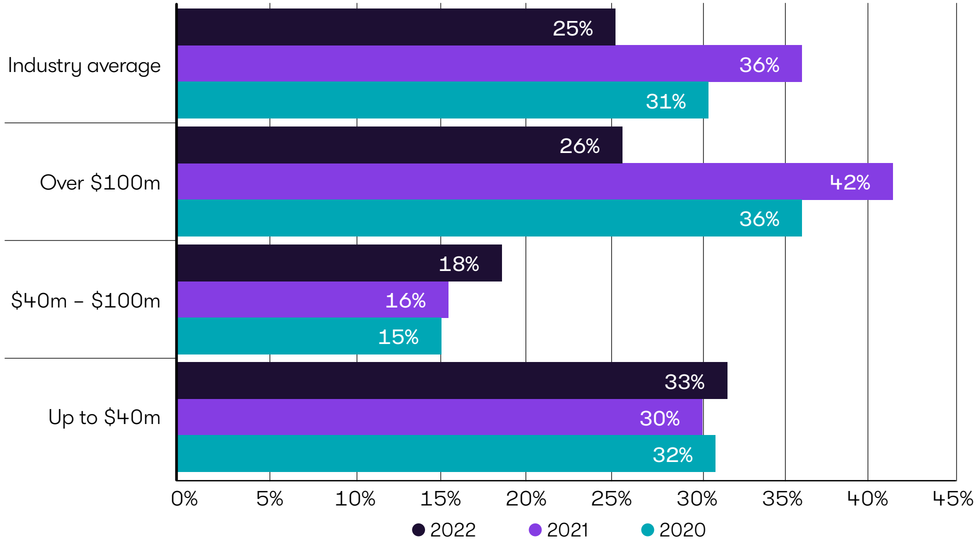
Dividends and Debt

	2022	2021	2020
Industry average as a % of revenue	3.70%	4.7%	3.3%
Industry average as a % of PBT	27.35%	47.9%	34.5%
Industry average as a % of equity	4.80%	5.8%	4.4%

For 2022, the dividend paid ratio and the debt to equity ratio have decreased largely as a result of the increased profitability experienced during the year.

Debt to equity ratio

	2022	2021	2020
Up to $40m	33%	30%	32%
$40m - $100m	18%	16%	15%
Over $100m	26%	42%	36%
Industry average	**25%**	**36%**	**31%**



ABOUT THE DATA

The data is largely extracted from audited financial statements, the majority being Grant Thornton clients. The analysis can include an element of judgement applied, 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

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$272m
Local revenue (AUD) at 30/06/21

1,300
People Nationally

165
Partners Nationally

6
Offices Nationwide

$6.6b
Global revenue (USD) at 30/09/21

62,000
People Globally

750+
Offices Globally

140+
Markets

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