



Grant Thornton

An instinct for growth™

AUGUST 2014

Checkout: Shopping for growth

Dealtracker for the retail industry



Checkout: Shopping for Growth - Dealtracker for the retail industry

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Executive summary

In this Dealtracker publication for the retail industry; “Checkout: Shopping for growth”, we have reviewed global M&A activity in the sector between 1 January 2011 and 30 June 2014. This has been a particularly tough period for many traditional retailers, who have struggled on the back of low consumer confidence and high levels of competition. Buyers have therefore been looking for businesses that can offer them a competitive difference by providing greater choice, value and convenience to customers.

“Customers engage with a brand, not a channel. Savvy retailers are looking for opportunities to create dynamic customer interactions by exploring both physical and digital business models. We expect to see further M&A activity in the online sector, as retailers seek to grow their profitability.”

Paul Greenberg
Executive Chairman; National Online Retailers Association

Key insights:

1

Omni channel

With an increasing channel shift from bricks and mortar retail to online, traditional retailers are building omni channel strategies in an attempt to attract customers, whether they be in store or online. As a result, high multiples have been paid for some online businesses, particularly those of a reasonable size in a specialist niche. We expect M&A activity to remain strong in the online retail space over the next few years as we continue to see consolidation in this space.

2

Niche segments

Buyers have also been looking for businesses in niche segments of the market where strong growth is expected. Areas that have attracted buyer interest include:

- Health and nutrition, as there is a growing trend by consumers towards healthier food products, fitness wear and lifestyle
- Restaurant chains, as consumers are increasingly looking for value options. The restaurants most sought after were profitable, multi-site businesses with strong brand names and further expansion potential; and
- Luxury goods, because acquirers expect this sector to rebound strongly as the economy continues to recover from the Global Financial Crisis (GFC)

3

Strategic buyers

In order to compete on more than just price, retailers have also been keen to acquire businesses that can help them create a unique merchandise offering. Of particular interest to buyers are businesses with clearly differentiated brands, strong online capability, broad product ranges and/or strategically located stores. Buyers have also been looking for opportunities to improve their profit margins through economies of scale by gaining cost savings through increased purchasing power, supply chain efficiencies, improved systems and better inventory management.

4

Private equity

There has been significant investment by Private Equity firms (PE) in all retail sectors over the last few years, as well as a number of successful PE exits. PE firms have been acquiring businesses with strong brands and leading positions in niche, fast growing markets. In many cases, the PE firms have helped to accelerate the growth of the retail business that they have acquired, by providing funding and supporting management through their contact network and retail expertise.

5

Globalisation

Many large retailers have also been acquiring businesses as part of a strategy to expand their companies globally. Australia has attracted international acquirers, as a result of our strong economic conditions, reliable regulatory environment and close proximity to Asia. We expect the level of retail competition in Australia to remain strong, as new global entrants come into our market either by buying Australian businesses, setting up their own stores or by targeting Australian consumers through their online offerings.

Transaction levels

Globally, between 1 January 2011 and 30 June 2014 there have been 4,328 international merger and acquisition (M&A) transactions within the retail industry. Of these deals, there were 114 deals where the target's primary operations were listed as being in Australia.

Australia's distribution of deals according to retail subsector was comparable to global deals, however Australia had proportionately more deal activity in Food and Online Retail.

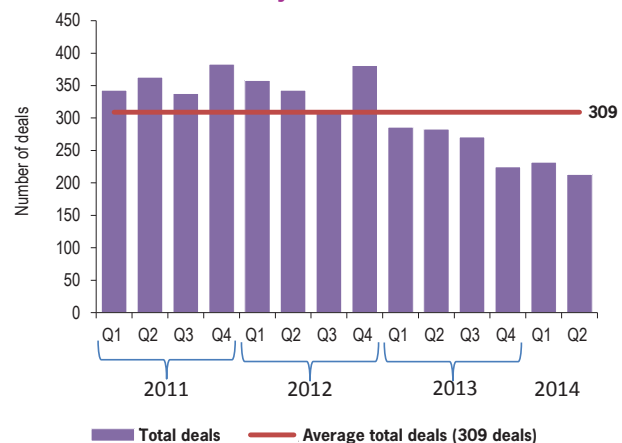
Deal levels

- Deal volumes were lower in 2013 than 2012 and 2011. This is not surprising given that 2013 was the slowest year for M&A activity globally since 2009.*
- Globally, the low deal levels continued into the first half of 2014. However, Australia's deal activity in the second quarter of 2014 picked up 75% on the first quarter of 2014, with the total number of deals increasing from 4 in Q1 2014 to 7 in Q2 2014.

Source: *Australian Financial Review 23 January 2014, which quoted Thomson Reuters

As retail conditions are slowly improving, we expect the level of M&A activity in the sector to increase. A recent positive sign in Australia was the recent acquisition by US PE firm, Bain Capital, of a majority stake in Retail Zoo (owner of Boost Juice). Other signs of improved market confidence in the sector include the Initial Public Offering (IPO) of Beacon Lighting, e-commerce business Mysale's recent listing on AIM and South African retailer Woolworth's takeover offers for David Jones and Country Road.

International deal activity



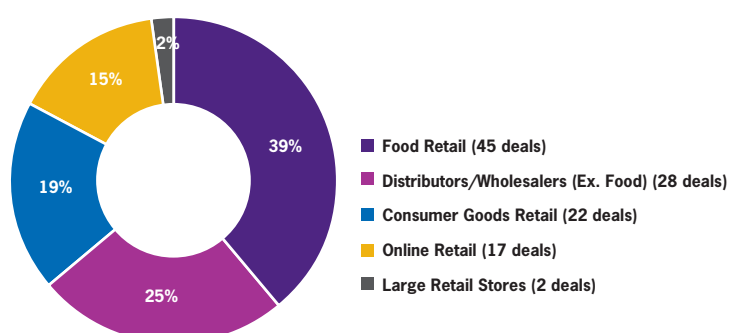
Sources: S&P's Capital IQ, Mergermarket, Grant Thornton analysis

International deal mix



Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

Australian deal mix*



* Refers to deals where the target is listed as being in Australia.
Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

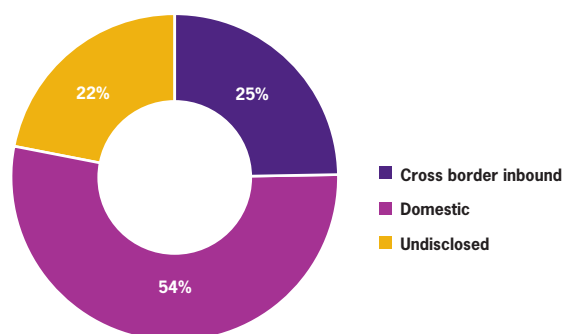
Australian transaction levels

Key comments

The countries with the highest number of deals were the United States (US), United Kingdom (UK) and Japan, with Australia placed seventh globally in terms of deal volume over the observed period. This is a high ranking for Australia considering the relative size of our economy.

There was also a reasonably high level of international interest in acquiring retail businesses in Australia, with at least 25% of the Australian retail businesses that were sold having international buyers.

Australian deals



Total deal position (Top 15 countries)


Position	Country	Consumer Goods Retail	Distributors/ Wholesale (Ex. Food)	Food Retail	Large Retail Stores	Online Retail	Total deals
1	United States	233	291	477	5	155	1,161
2	United Kingdom	116	127	421	4	51	719
3	Japan	85	68	81	2	22	258
4	France	41	62	60	6	37	206
5	Germany	32	38	27	2	29	128
6	Russia	37	39	30	4	6	116
7	Australia	22	28	45	2	17	114
8	Sweden	27	41	19	2	23	112
9	Canada	30	40	32	1	5	108
10	China	12	53	22	14	6	107
11	Netherlands	24	38	22	2	11	97
12	Spain	18	32	23	2	7	82
13	Italy	22	21	21	2	3	69
14	Finland	17	23	19	1	5	65
15	Malaysia	6	33	23	1	1	64
Total		722	934	1,322	50	378	3,406

*Refers to deals where the target company is located in the country listed

Sources: Standard & Poor's Capital IQ, Mergermarket, Grant Thornton analysis

Overseas buyers are interested in Australian retail businesses because of our stable regulatory environment and our strong positioning in the Asia Pacific region. Some buyers may also be attracted to acquiring businesses in Australia due to the current strong value of our dollar. For example, some of Zara's most profitable operations are in Australia.

Top 10 international deals*

<p>1 </p>	<p>Acquirer: Loblaw Companies Limited Target: Shoppers Drug Mart Corporation Deal value: A\$14,324 million (m) Acquirer country: Canada Target country: Canada Date: 28/03/2014 EV/EBITDA Multiple: 11.1x</p>	<p>Loblaw Companies Limited (Loblaw), a subsidiary of George Weston Limited, is one of Canada's largest food retailers and a leading provider of drugstore, general merchandise and financial products and services. Shoppers Drug Mart Corporation was the licensor of full service retail drug stores. The acquisition strengthened Loblaw's market position in the growing health, wellness and nutrition sectors of the market. The acquisition was also expected to yield annual cost synergies of \$300m within three years.</p>
<p>2 </p>	<p>Acquirer: Temasek Holdings Pte. Target: Olam International Ltd. Deal value: A\$11,758m Acquirer country: Singapore Target country: Singapore Date: 23/05/2014 EV/EBITDA Multiple: 11.6x</p>	<p>Temasek Holdings Pte. is a Singaporean government owned investment firm. Temasek Holdings acquired an additional 75% stake in Olam, one of the world's largest suppliers of cocoa, coffee and nuts and also one of the largest cotton companies. Temesak was seeking to capitalise on the expected increase in global demand for food.</p>
<p>3 </p>	<p>Acquirer: Ares Management LLC; Canada Pension Plan Investment Board Target: Neiman Marcus Group LTD LLC Deal value: A\$6,657m Acquirer country: United States Target country: United States Date: 25/10/2013 EV/EBITDA Multiple: NA</p>	<p>Neiman Marcus Group Ltd LLC (Neiman Marcus) is one of the largest luxury, department store retailers in the US. It also operates a high end, online retailing division. The two PE funds bought the business with the intention of injecting substantial capital to strengthen the online retail business and to look for opportunities to expand the brand geographically. The acquisition was expected to be timed to capitalise on a forecast a revival in the luxury retail segment, as the US economy starts to improve.</p>
<p>4 </p>	<p>Acquirer: CP ALL Public Company Limited Target: Siam Makro Public Company Limited Deal value: A\$4,186m Acquirer country: Thailand Target country: Thailand Date: 26/06/2013 EV/EBITDA Multiple: 30.2x</p>	<p>Siam Makro Public Company Limited (Siam Makro) is a leading discount chain store in Thailand. It was acquired by CP ALL Public Company Limited (CP), which operates thousands of 7-Eleven stores in Thailand. The acquisition was undertaken in order to strengthen CP's portfolio at a time when the sector was expected to benefit from government measures to spur consumption in Thailand. CP also planned to expand Siam Makro throughout Southeast Asia, China and Pakistan. The business was purchased at a premium transaction multiple of 30.2x on the expectation of strong growth opportunities for the business in South East Asia.</p>
<p>5 </p>	<p>Acquirer: Alimentation Couche-Tard Inc. Target: Statoil Fuel & Retail ASA Deal value: A\$3,463m Acquirer country: Canada Target country: Norway Date: 19/06/2012 EV/EBITDA Multiple: 6.7x</p>	<p>Alimentation Couche-Tard Inc. (Couch-Tard) is a large independent convenience store operator in North America. Statoil Fuel & Retail ASA (Statoil Fuel & Retail) is a leading convenience and fuel retailer in the high growth markets of Central and Eastern Europe. Couch-Tard planned to leverage its experience in the North American convenience store market to enhance Statoil Fuel & Retail's retail business. The acquisition also provided Couch-Tard with greater diversification and an entry platform into the European market at a time when market conditions were expected to be improving.</p>

*Where deal values are available

“Large retail businesses are looking for opportunities to expand their businesses internationally.”



Consumer goods



Food retail



Large retail stores



Online retail



Distributors/Wholesalers

6



Acquirer: Bain Capital Private Equity (Bain)
Target: Skylark Co., Ltd.
Deal value: A\$3,303m
Acquirer country: United States
Target country: Japan
Date: 30/11/2011
EV/EBITDA Multiple: NA

Skylark Co. Ltd (Skylark) is a Japanese restaurant chain operating approximately 3,500 restaurants under 48 brand names, including Kozo Sushi Chain and Gusto. The restaurant chain is positioned to take advantage of the slow economic growth in Japan, as consumers look for value options. Bain intended to further expand the business in Japan and look for opportunities to diversify the business outside Japan. Bain has also invested in other restaurant businesses globally, including in Domino's Pizza, Burger King and Dunkin' Brands.

7



Acquirer: Albertsons, LLC
Target: New Albertson's, Inc.
Deal value: A\$3,120m
Acquirer country: United States
Target country: United States
Date: 21/03/2013
EV/EBITDA Multiple: NA

Albertsons LLC (Albertsons) acquired five supermarket chains operating under different banners from a wholly owned subsidiary of Supervalu. The 877 stores acquired were complementary to Albertson's existing operations, which are focused on traditional grocery retail. Albertson planned to invest in the stores to improve operations and grow revenues. The business was sold by Supervalu, who was restructuring its business in response to the difficult retail conditions, which had placed financial pressure on the company.

8



Acquirer: Leonard Green & Partners, L.P.; TPG Capital, L.P.
Target: J. Crew Group, Inc.
Deal value: A\$3,074m
Acquirer country: United States
Target country: United States
Date: 07/03/2011
EV/EBITDA Multiple: 8.4x

J.Crew Group Inc. (J.Crew) is a multi-channel retailer of women's, men's and children's apparel, shoes and accessories and had 246 stores in the US at the time of the transaction. The business was bought by two PE funds that already had significant holdings in the retail sector. The investors saw the potential to capitalise on J.Crew's strong brand and multi-channel strategy to further expand the business, both in the US and internationally.

9



Acquirer: Golden Agri-Resources Ltd
Target: PT Sinarmas Distribusi Nusantara (SDN)
Deal value: A\$3,071m
Acquirer country: Singapore
Target country: Indonesia
Date: 02/06/2014
EV/EBITDA Multiple: NA

SDN primarily operates as a distributor of fast moving consumer products. Golden-Agri Resources is the world's second largest palm oil plantation company; it cultivates, harvests and refines crude palm oil into products such as cooking oils and margarine.

10



Acquirer: Hudson's Bay Company
Target: Saks Incorporated
Deal value: A\$2,963m
Acquirer country: Canada
Target country: US
Date: 04/11/2013
EV/EBITDA Multiple: 10.2x

Hudson's Bay Company (Hudson's Bay) is a large mid-market Canadian department store chain. Saks Incorporated (Saks) is one of the most well recognised luxury retailers in the US. Hudson's Bay acquired Saks because its strong, unique brand would add a luxury dimension to Hudson's Bay's lower priced stores. Hudson's Bay also planned to expand Saks into Canada and to continue to roll out Saks's outlets across the US.

Sources: S&P Capital IQ, Mergermarket
NA: Not available

“Private Equity firms were the buyers in 30% of the largest transactions.”

Top 10 Australian deals*

<p>1</p> 	<p>Acquirer: Super Retail Group Limited Target: Rebel Group Limited Deal value: A\$625m Acquirer country: Australia Target country: Australia Date: 30/10/2011 EV/EBITDA Multiple: 8.1x</p>	<p>Rebel Group Limited (Rebel) is a market leader in the Australian sporting goods retail sector, and, at the time of the acquisition had 128 stores nationwide. Super Retail Group ("Super Retail") is a listed Australian entity that sells automotive and leisure products. Super Retail's strategy was to expand its business in the leisure sector, to take advantage of a market trend towards people spending more money on enjoying their leisure time. The listed company believed there was potential to grow Rebel from 128 stores to 185 stores over the medium term. Synergistic benefits of approximately \$10m per annum were expected to be realised through optimisation of the procurement, logistics, supply chain, marketing, IT and administrative functions.</p>
<p>2</p> 	<p>Acquirer: Bright Food (Group) Co., Ltd. Target: Manassen Foods Australia Deal value: A\$516m Acquirer country: China Target country: Australia Date: NA EV/EBITDA Multiple: NA</p>	<p>State owned Chinese company Bright Food (Group) Co., Ltd. (BFG) acquired a 75% stake in Manassen Foods Australia, the wholly owned subsidiary of Food Holdings Pty Ltd. from Australian PE firm CHAMP. BFG is one of China's largest food retailers with over 3,000 stores nationally. Manassen retails food under well-known brands including; Ocean Blue, Country Cup, Hellmanns and Jelly Belly. The intention of the acquisition was to provide BFG access to overseas markets, expanding Bright Food's profile globally.</p>
<p>3</p> 	<p>Acquirer: Archer Capital Pty Ltd. Target: Quick Service Restaurants Holdings Pty Limited Deal value: A\$450m Acquirer country: Australia Target country: Australia Date: 13/06/2011 EV/EBITDA Multiple: NA</p>	<p>Quick Service Restaurants Holdings (QSRH) is the largest Australian-owned operator of fast food restaurants under well-known brands Red Rooster, Oporto and Chicken Treat. The business was owned by Quadrant Private Equity, who in the four years that they owned the business, grew it from 450 to 620 stores. QSRH also had been growing its network internationally, with stores in New Zealand (NZ), China, the US and the UK. The business was sold to another PE firm, Archer Capital, who have significant growth plans for the business.</p>
<p>4</p> 	<p>Acquirer: Woolworths Limited Target: Cellarmaster Wines Pty Limited Deal value: A\$344m Acquirer country: Australia Target country: Australia Date: 29/04/2011 EV/EBITDA Multiple: NA</p>	<p>Cellarmaster Wines Pty Ltd (Cellarmaster) is one of Australia's largest direct marketing wine sellers and providers of contract bottling and wine services. The acquisition complemented Woolworths' existing liquor portfolio, including brands such as Dan Murphy's, BWS, Woolworths Liquor and Langton's. The acquisition was part of Woolworths' strategy to provide a multi-channel, multi-brand and multi-platform liquor offering. Woolworths also planned to utilise Cellarmaster's wine production facility to enhance its private label capability.</p>
<p>5</p> 	<p>Acquirer: Metcash Limited Target: Franklins Pty Ltd. Deal value: A\$215m Acquirer country: Australia Target country: Australia Date: 30/09/2011 EV/EBITDA Multiple: NA</p>	<p>Metcash Limited (Metcash) is a leading wholesale distribution and marketing company and owns a number of well recognised brands, including IGA supermarket chain, Cellarbrations, Mitre10 and Autobarn. The transaction involved Metcash acquiring 85 Franklins supermarkets. Metcash's plan was to convert the stores to IGA supermarkets and on sell the stores to independent retailers. The acquisition was expected to strengthen IGA's market position to help it compete against Woolworths and Coles. It was also expected to contribute more than \$500 million per annum of wholesale sales to Metcash's business.</p>

*Where deal values are available

“ *Businesses are looking for growth opportunities in the difficult market conditions.* ”

6		<p>Acquirer: Navis Capital Partners Target: Retail Apparel Group Pty Ltd. Deal value: A\$200m Acquirer country: Malaysia Target country: Australia Date: 13/04/2011 EV/EBITDA Multiple: NA</p>	<p>Retail Apparel Group Pty Ltd (RAG) is a leading Australian menswear retailer specialising in smart casual wear across the brands Tarocash, yd and Connor. The transaction was a sale by one PE firm, Champ Ventures, to another, Navis Capital Partners. Champ Ventures originally invested in the business to assist with succession planning of the two founders and to help position the business for continued growth. Champ Ventures grew the business both organically and via acquisition from 43 stores to 248 stores. Navis Capital invested to fund the next stage of growth in the business.</p>
7		<p>Acquirer: Bain Capital, LLC Target: Retail Zoo Pty Ltd Deal value: A\$185m Acquirer country: United States Target country: Australia Date: 30/05/2014 EV/EBITDA Multiple: 15x</p>	<p>Retail Zoo Pty Ltd. owns, operates and franchises food retail stores in Australia and eight other countries, including Boost Juice, Salsa's Fresh Mex Grill, Cibo Espresso and Hatch Chicken Shop. PE firm, Riverside, sold its 70% stake in the company to Bain Capital; a leading US based investment firm with expertise in the food retailing industry.</p> <p>Attracted to Retail Zoo's market position, growth opportunities and strong portfolio of brands, Bain acquired the business with the intention of leveraging its own global quick service restaurant experience to further grow the business; creating more franchisee opportunities and to roll out Boost stores into universities, train stations, airports and petrol stations.</p>
8		<p>Acquirer: Country Road Ltd Target: Witchery Australia Holdings Pty Limited Deal value: A\$181m Acquirer country: Australia Target country: Australia Date: 02/10/2012 EV/EBITDA Multiple: 5.3x</p>	<p>Witchery Australia Holdings Pty Ltd (Witchery Group) is a fashion retailer with Witchery and Mimco stores across Australia, NZ, Singapore, South Africa and the UK. Country Road Ltd (Country Road) acquired Witchery Group because of its complementary brands and its strong position in the mid to upper-tier specialist retail sector. Country Road also hoped to generate significant synergies as a result of the increased scale of the business.</p>
9		<p>Acquirer: Quadrant Private Equity Pty Limited Target: City Farmers Retail Pty Ltd Deal value: A\$93m Acquirer country: Australia Target country: Australia Date: 22/08/2013 EV/EBITDA Multiple: NA</p>	<p>City Farmers Retail Pty Ltd (City Farmers) is a Perth based specialty retailer of pet food, supplies and products. The business was acquired by the PE firm Quadrant Private Equity (Quadrant), who saw growth opportunities in the pet supply sector, given the growing trend towards the 'humanisation' of pets.</p>
10		<p>Acquirer: Glentel Inc. Target: AMT Group Pty Ltd. Deal value: A\$71m Acquirer country: Canada Target country: Australia Date: 01/11/2012 EV/EBITDA Multiple: 3.8x</p>	<p>AMT Group Pty Ltd (AMT) operates and manages Virgin Mobile and Allphones stores in Australia and, at the time of the acquisition, had 210 stores nationally. Glentel Inc. (Glentel) is a large, independent, multi-carrier mobile phone retailer in Canada and a provider of telecommunications services and solutions in North America. Glentel was seeking to grow the international reach of its mobile phone store network and planned to use AMT as a growth platform for its business in the Asia Pacific region.</p>

Sources: S&P Capital IQ, Mergermarket

“Buyers have been seeking businesses with strong brands and omni-channel strategies.”

Private Equity deals

Private Equity (PE) firms were active in 15% of total transactions over the observed period and were much more prevalent in the larger transactions.

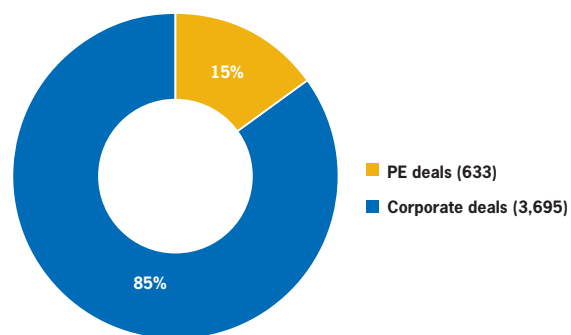
Of the 633 deals that PE firms participated in, they were the buyers in 37% of transactions, the sellers in 41% of transactions and had dual roles in 22% of transactions.

PE firms have a strong appetite to provide equity to fund the growth of retail businesses that meet their investment criteria. They are particularly interested in acquiring businesses with strong brands, solid cash flows and with leading positions in niche markets.

“Green Capital Partners remains focused on niche opportunities in retail where broader trends are creating “wind at your back” and outsized growth. For example, the organic food market is expected to grow 10% to 15% per year as consumers increasingly realise the health benefits of clean food and the premium price over conventional food narrows. At AboutLife, we focus on creating an attractive and authentic shopping experience with a deep range of products where we can educate customers on the benefits of clean eating. We are consistently opening new stores to bring affordable and convenient clean food to our customers in Sydney and beyond.”

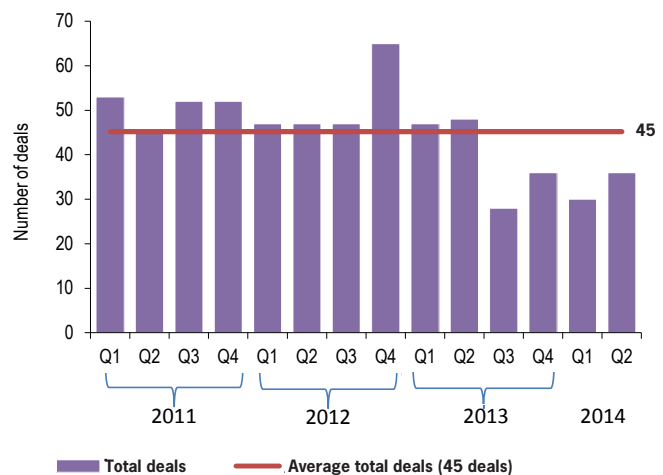
Mike Green, Chairman of the Board of Directors, AboutLife

Private Equity deals vs. Corporate deals



Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

Private Equity transactions



Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis



Private Equity deals by subsector

Retail Sector	Subsector	Number of deals
Consumer Goods Retail	Specialty stores	72
	Apparel retail	59
	Drug retail	20
	Home furnishing retail	14
	Computer and electronics retail	13
	Home improvement retail	9
	General merchandise stores	8
	Total	195
Distributors/Wholesalers (Ex. Food)	Distributors/Wholesalers	113
	Total	113
Food Retail	Restaurants	120
	Food retail	36
	Food distributors	29
	Total	185
Large Retail Stores	Department stores	11
	Hypermarkets and super centres	3
	Total	14
Online Retail	Internet retail	110
	Catalog retail	16
	Total	126
Total PE Deals		633

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

“Private equity firm, NBC Capital, have helped us improve our back of house and put the right tools in place to prepare our business for our next progressive growth phase. We also expect to benefit from their merchandising and management experience as we continue to grow”

George Pezaros, Degani Bakery Cafe

In addition to the M&A activity covered in this Dealtracker for the retail industry, PE firms have funded the growth plans for a number of other Australian businesses through contributing additional equity via private placements.

Examples of PE private placements that Grant Thornton Australia has worked on include:

- NBC Capital’s investment in Degani Bakery Café Pty Ltd, an operator of bakery style cafes in Melbourne. The company also provides wholesale products for other retail food businesses. This transaction occurred in December 2012.
- Archer Capital’s investment in pet store chain retailer Best Friend Pet Stores Pty Ltd in July of 2012.



Private Equity deals

Top 10 international PE deals by deal value*










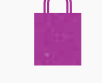
Transaction type	Seller	Buyer	Target	Target subsector	Target country	Closed Date	Deal value (A\$m)	Implied EV/EBITDA multiple
PE Entry/Exit	Warburg Pincus LLC; Leonard Green & Partners, L.P.; TPG Capital, L.P.; Newton Holding, LLC	Ares Management LLC; Canada Pension Plan Investment Board.	Neiman Marcus Group LTD LLC		United States	25/10/13	6,657	-
PE Entry/Exit	Sumitomo Mitsui Trust Capital Co., Ltd.; Nomura Principal Finance Co., Ltd.	Bain Capital Private Equity.	Skylark Co., Ltd		Japan	30/11/11	3,303	-
PE Entry	NA	Leonard Green & Partners, L.P.; TPG Capital, L.P.	J. Crew Group, Inc.		United States	07/03/11	3,074	8.4x
PE Exit	Southeastern Asset Management, Inc.; Mediobanca S.p.A., Asset Management Arm; Starling International Management Ltd.	Hudson's Bay Company. (TSX:HBC)	Saks Incorporated		United States	04/11/13	2,963	10.2x
PE Entry/Exit	Advent International Corporation; Berkshire Partners LLC.	Advent International Corporation; Berkshire Partners LLC; Thomas H. Lee Partners, L.P.; Weston Presidio.	Party City Holdings Inc.		United States	27/07/12	2,762	-
PE Entry	NA	CVC Capital Partners Limited; Leonard Green & Partners, L.P.	BJ's Wholesale Club Inc.		United States	30/09/11	2,409	6.8X
PE Entry/Exit	RREEF America L.L.C.; Borletti Group S.C.A.	Divine Investments SA.	Printemps SAS		France	31/07/13	2,371	-
PE Entry	NA	Advent International Corporation.	Douglas Holding AG		Germany	02/01/13	2,131	7.2x
PE Exit	IMM Private Equity, Inc.; HI Consortium Investment Co., Ltd.	Lotte Shopping Co., Ltd. (KOSE:A023530)	LOTTE Himart Co.,Ltd. (KOSE:A071840)		South Korea	31/10/12	1,920	11.9x
PE Entry	NA	Blum Capital Partners; Golden Gate Capital.	Payless Inc.		United States	09/10/12	1,857	8.4x
Total							29,447	

Sources: S&P Capital IQ, Mergermarket

*Where deal values are available



Top 10 Australian PE deals by deal value*

Transaction type	Seller	Buyer	Target	Target subsector	Date	Deal value (A\$m)
PE Exit	Archer Capital Pty Ltd.	Super Retail Group Limited (ASX:SUL)	Rebel Group Limited		30/10/11	625
PE Entry/Exit	Quadrant Private Equity Pty Limited.	Archer Capital Pty Ltd.	Quick Service Restaurants Holdings Pty Limited		13/06/11	450
PE Exit	Archer Capital Pty Ltd.	Woolworths Limited. (ASX:WOW)	Cellarmaster Wines Pty Limited		29/04/11	344
PE Entry/Exit	CHAMP Ventures Pty Ltd.	Navis Capital Partners.	Retail Apparel Group Pty Ltd.		13/04/11	200
PE Entry/Exit	The Riverside Company.	Bain Capital, LLC.	Retail Zoo Pty Ltd		30/05/14	185
PE Exit	Gresham Private Equity Limited.	Country Road Ltd. (ASX:CTY)	Witchery Australia Holdings Pty Limited		02/10/12	181
PE Entry	NA	Quadrant Private Equity Pty Limited.	City Farmers Retail Pty Ltd		22/08/13	93
PE Entry	Spotlight Pty Ltd.	CHAMP Ventures Pty Ltd.	RSEA Pty. Ltd.		19/12/11	36
PE Exit	Quadrant Private Equity Pty Limited.	M. Suresh Company Private Limited.	The Jewellery Group Pty Ltd.		11/11/11	30
PE Exit	Anchorage Capital Partners.	McPherson's Consumer Products Pty Ltd.	Electrical Distributors Australia Pty. Ltd., Inc.		28/03/13	23
Total						2,166

Sources: S&P Capital IQ, Mergermarket

*Where deal values are available

Online retail

Online retail deals

Online transactions have accounted for approximately 15% of Australian deals during our review period. This is relatively high considering that online sales in Australia still only account for approximately 2.6% of monthly total Australian retail turnover¹.

The level of M&A activity is a reflection of the strong growth prospects for the sector. IBISWorld forecasts that in the five years to 2018-2019, industry revenues will increase by an annualised 9.9%².

The relatively low barriers to entry and the strong prospects have attracted many new businesses to the sector, with online establishments increasing at an annualised rate of 16.3% over the last 5 years². Furthermore, the social infrastructure on the web has enabled some online retailers to grow very quickly.

However, despite the strong revenue growth, many online Australian businesses have struggled to be profitable because of the high marketing and distribution costs associated with operating an online business. Australian consumers also connect online shopping with discounted prices, which is contributing to low profitability levels.

Some online businesses have been seeking to increase their scale and profitability by acquiring other online businesses. An example of this was Grays (NSW) Pty Ltd's acquisition of Overstockoutlet Pty Ltd, which is the online retailer known as oo.com.au. M&A activity levels in the sector are expected to remain relatively high, as the large number of operators and new entrants drive further consolidation.



Australian online retail transactions by deal value

Buyer	Target	Target country	Acquirer country	Date	Deal value (A\$m)	% Acquired
APN News & Media Ltd. (ASX:APN)	brandsExclusive (Australia) Pty Ltd.	Australia	Australia	21/06/12	66	82
Qantas Frequent Flyer Limited.	Wishlist Holdings Limited.	Australia	Australia	05/08/11	11	100
Mnemon Limited. (ASX:MNZ)	TopBuy Australia Pty Ltd.	Australia	Australia	07/05/14	2	100
AER Group Pty Ltd.	Warcom (Aust) Pty. Ltd.	Australia	Australia	12/06/12	1	100
Fortis Ago Pty Ltd.	Wine Cru Pty Ltd.	Australia	Australia	11/07/13	NA	NA
Linden Research, Inc.	Desura Pty Ltd.	Australia	United States	10/07/13	NA	100
GoConnect Limited. (ASX:GCN)	EcoConnect Australia Pty Ltd.	Australia	Australia	24/05/13	NA	50
Shoply Limited. (ASX:SHP)	OHKI Ltd.	Australia	Australia	17/06/13	NA	100
Grays (NSW) Pty Limited.	Overstockoutlet Pty Ltd.	Australia	Australia	29/04/13	NA	100
Jack Media Pty Ltd.	Allthesales.com.au Pty Ltd.	Australia	Australia	11/02/13	NA	100
GoConnect Limited. (ASX:GCN)	EcoConnect Australia Pty Ltd.	Australia	Australia	25/01/13	NA	50
Super Retail Group Limited. (ASX:SUL)	VBM Retail Pty Ltd.	Australia	Australia	12/09/12	NA	50
NUE Pty Limited.	Click Energy Pty Ltd.	Australia	Australia	23/07/12	NA	100
DEALS.com.au Pty. Ltd.	Ouffer Australia Pty Ltd.	Australia	Australia	31/12/12	NA	100
Shop Closeouts Pty Ltd.	Wine Cru Pty Ltd.	Australia	Australia	18/04/12	NA	NA
Wayfair LLC.	Buyster Pty Ltd.	Australia	United States	20/09/11	NA	50
Collins Booksellers Pty Limited.	SeekMedia.com Pty Ltd.	Australia	Australia	27/04/11	NA	100

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

1. Retail Trade 8501.0 May 2014, Australian Bureau of Statistics

2. IBISWorld Industry Report X0004, Online Shopping in Australia, January 2014

Other factors that have been driving M&A in the sector include:

A move by major retailers towards an omni channel approach

In order to compete with online retailers, bricks and mortar retailers are seeking to build omni channel strategies in an attempt to attract their customers, whether that be in store or online. Australian companies that have acquired online businesses as part of an omni channel strategy include Super Retail Group's acquisition of VBN Retail and Collins Booksellers acquisition of SeekMedia.

Other bricks and mortar retailers have acquired online businesses to gain immediate scale and expertise to enable them to quickly grow their online offering. This was a key strategy behind Koninklijke Ahold's acquisition of bol.com.

A number of retail businesses are seeking to create competitive advantages by integrating their store and online offerings, for example, by introducing "reserve online, pick up in store" programs.

Takeover of smaller online competitors

Larger businesses have been acquiring smaller online competitors. An example of this was Amazon's acquisition of Quidsi, which was competing with Amazon's nappy business through its website Diapers.com.

Compete on range and service rather than price

In the tough market conditions, retailers have been looking for ways to differentiate their offering and many have been seeking to do this by broadening their product offerings. Online businesses are well placed to compete in this regard, as they do not have the same shelf space restrictions as traditional retailers. 1-800 Contacts, which was acquired by WellPoint Inc, is an example of an online business that has been able to create a leading position in the US market by offering a broad selection of contact lenses at affordable prices.

Investors seeking to capitalise on growth opportunities in niche sectors

PE firms or large diversified companies have been acquiring growing businesses in niche segments of the online industry. Examples of this include, Charlesbank Capital Partners and Webster Capital's acquisition of Redcats USA and Berkshire Hathaway's acquisition of OTC Direct.

Entry into new markets

An example of this was Qantas Frequent Flyer's acquisition of Wishlist Holdings.

Top 10 international online retail transactions by deal value*

Buyer	Target	Target country	Acquirer country	Date	Deal value (A\$m)	% Acquired
The Priceline Group Inc. (NasdaqGS:PCLN)	Kayak Software Corporation.	United States	United States	21/05/13	1,753	100
Bain Capital Private Equity.	Jupiter Shop Channel Co.,Ltd.**	Japan	United States	31/12/12	1,259	50
WellPoint Inc. (NYSE:WLP)	1-800 CONTACTS, Inc.	United States	United States	20/06/12	926	100
Amazon.com Inc. (NasdaqGS:AMZN)	Quidsi, Inc.	United States	United States	30/04/11	539	100
Charlesbank Capital Partners, LLC; Webster Capital.	Redcats USA, Inc.	United States	United States	05/02/13	502	100
Berkshire Hathaway Inc. (NYSE:BRK.A)	OTC Direct, Inc.**	United States	United States	27/11/12	482	100
Essilor International SA. (ENXTPA:EI)	Coastal Contacts Inc.	Canada	France	28/04/14	436	100
Koninklijke Ahold N.V. (ENXTAM:AH)	bol.com b.v.	Netherlands	Netherlands	09/05/12	436	100
Walgreen Co. (NYSE:WAG)	drugstore.com, inc.	United States	United States	03/06/11	427	100
Seven & i Net Media Co., Ltd.	Nissen Holdings Co., Ltd.** (TSE:8248)	Japan	Japan	22/01/14	403	50.74
Total					7,163	

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*Where deal values are available

**Catalog retail businesses

Consumer goods retail

The subdued economic conditions following the GFC have been particularly tough on the consumer goods retail segment, as market uncertainty led to consumers reducing their discretionary spending. The reduced expenditure levels resulted in retailers significantly discounting prices to try to lure customers into their stores. This highly competitive situation was further exacerbated by increased rivalry from online retailers, particularly in Australia, where the high value of the Australian dollar led to many consumers purchasing online from overseas.

These market conditions contributed to the nature of some of the M&A activity that occurred in the consumer goods retail segment, with the following factors instigating some deals:

Consolidation

Some of the M&A activity in the consumer goods retail sector was driven by companies seeking to gain scale and improve profit margins by increasing their purchasing power and gaining other cost savings. An Australian example of this was Country Road's acquisition of Witchery Group. Overseas, we saw the large furniture player Steinhoff International acquire Coforama to further improve its bargaining strength with suppliers.

Attempts to differentiate

In the highly competitive retail environment, department stores have been looking for opportunities to acquire businesses that would strengthen their offerings and provide them with a competitive advantage. For example, in Australia, when Myer acquired its initial 65% interest in Sass and Bide it also gained exclusive department store rights to distribute the successful, designer brand. In Korea the department store, Lotte Shopping, purchased Himart to strengthen its electronic retail business.

Technology drivers

Businesses in some segments of the consumer goods retail sector have been forced to adapt their business models to survive, as many of their traditional product offerings are being made obsolete by the internet. An example of this driving M&A activity was Office Depots acquisition of OfficeMax. These two stationary businesses were not only suffering from increased competition from online players, but many of their traditional product categories, such as stationary and filing cabinets, were experiencing declining sales as a consequence of the changing nature of the home office. This led to a decision to consolidate the two businesses, to create one stronger business that was better positioned to compete.

Move to private label

To improve margins, department stores have been increasingly moving towards private label products. This has created issues for some wholesalers, who have struggled to gain sufficient shelf space for their products on retail floors. In response, some wholesalers have attempted to enter the retail market directly. An example of this in Australia was Billabong, which acquired a number retail stores, including Surflection in 2011 and Canada West 49, Surf Dive n Ski and Jetty Surf in 2010.

Geographic expansion

Many retailers have been looking for growth opportunities by entering other geographic markets. In Australia, we saw AMT acquired by Glentel and The Jewellery Group acquired by M Suresh Company, an Indian diamond company.

Aquisition of strong brands

Retailers have also been looking to buy businesses with strong brands. An example of this was Unilever's acquisition of Australian tea business, T2, for an undisclosed amount. Unilever is a large diversified multi-national, which owns brands such as Lipton and Bushells. Unilever was looking to bring the benefits of scale and access to global markets to the T2 business.



Specialty stores



Computers and electrical













Apparel retail



Drug retail

Top 10 Australian consumer goods retail transactions by deal value*

Buyer	Target	Target sector	Target country	Acquirer country	Date	Deal value (A\$m)	% Acquired
Super Retail Group Limited. (ASX:SUL)	Rebel Group Limited.		Australia	Australia	30/10/11	625	100
Navis Capital Partners.	Retail Apparel Group Pty Ltd.		Australia	Malaysia	13/04/11	200	100
Country Road Ltd. (ASX:CTY)	Witchery Australia Holdings Pty Limited.		Australia	Australia	02/10/12	181	100
Quadrant Private Equity Pty Limited.	City Farmers Retail Pty Ltd.		Australia	Australia	22/08/13	93	NA
Glentel Inc. (TSX:GLN)	AMT Group Pty Ltd.		Australia	Canada	01/11/12	71	83
Myer Holdings Limited. (ASX:MYR)	Boogie & Boogie Pty Ltd.		Australia	Australia	02/03/11	42	65
CHAMP Ventures Pty Ltd.	RSEA Pty. Ltd.		Australia	Australia	19/12/11	36	79
M. Suresh Company Private Limited.	The Jewellery Group Pty Ltd.		Australia	India	11/11/11	30	100
Billabong International Limited.	Surfection Pty Ltd.		Australia	Australia	23/09/11	3	50
Wesfal Pty Ltd.	Central West Agricentre.		Australia	Australia	30/05/13	3	100
Total						1,283	

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*Where deal values are available

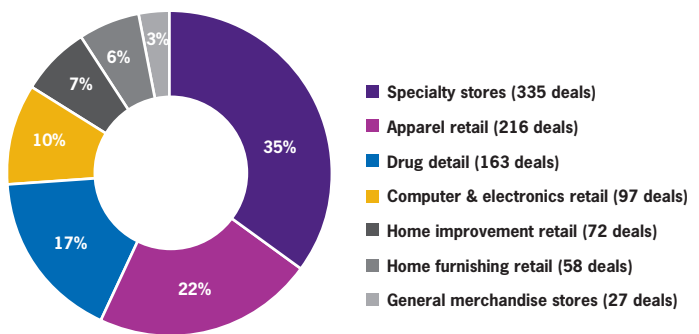


Consumer goods retail

There have also been a number of international retailers setting up stores in direct competition to Australian retailers, with Uniqlo being the latest large international retailer to target the Australian market. Other recent entrants are the Swedish brand H&M, which opened its first Australian store in Melbourne in April 2014. Spain's Zara, which now has nine stores and Britain's Topshop, which has opened four stores since it arrived in 2011.

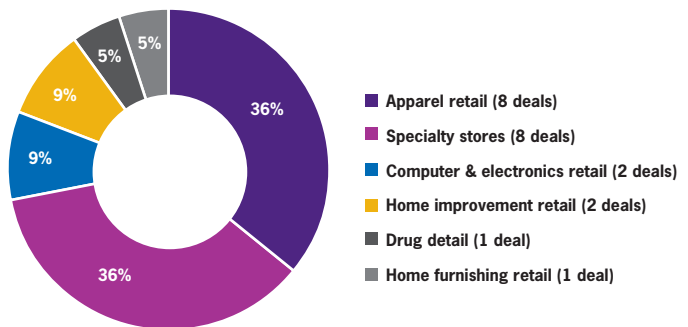
On a positive note, there are a number of consumer goods retailers with leading positions in niche markets that have attracted investment interest from some of the large PE firms, who have been keen to fund the further expansion plans of these businesses. International examples of this include the acquisition by PE firms of Party City Holding (US party supply market), Douglas Holding (French perfume market), Payless (footwear) and Jo-Ann Stores (fabric). In Australia, PE firms purchased Retail Apparel Group (men's smart casual), CityFarmers (pet supplies), and RSEA (supplies hard hats to the mining and construction sectors).

International deal distribution



Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis











Australian deal distribution



Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis



Top 10 international consumer goods retail transactions by deal value*

Buyer	Target	Target sector	Target country	Acquirer country	Date	Deal value (A\$m)	% Acquired
Loblaw Companies Limited. (TSX:L)	Shoppers Drug Mart Corporation. (TSX:SC)		Canada	Canada	28/03/14	14,324	100
Alimentation Couche-Tard Inc.	Statoil Fuel & Retail ASA.		Norway	Canada	19/06/12	3,463	100
Leonard Green & Partners, L.P.; TPG Capital, L.P.	J. Crew Group, Inc.		United States	United States	07/03/11	3,074	100
Advent International Corporation; Berkshire Partners LLC; Thomas H. Lee Partners, L.P.; Weston Presidio.	Party City Holdings Inc.		United States	United States	27/07/12	2,762	100
Office Depot, Inc. (NYSE:ODP)	OfficeMax Incorporated.		United States	United States	05/11/13	2,156	100
Advent International Corporation.	Douglas Holding AG.		Germany	United States	02/01/13	2,131	100
The Men's Wearhouse, Inc. (NYSE:MW)	Jos. A Bank Clothiers Inc.		United States	United States	18/06/14	2,027	100
Lotte Shopping Co., Ltd. (KOSE:A023530)	LOTTE Himart Co.,Ltd. (KOSE:A071840)		South Korea	South Korea	31/10/12	1,920	65
Blum Capital Partners; Wolverine World Wide Inc. (NYSE:WWW); Golden Gate Capital.	Payless Inc.		United States	United States	09/10/12	1,857	94
Agrium Inc. (TSX:AGU)	Glencore International plc, Agri-Products Business of Viterra, Inc.		Canada	Canada	01/10/13	1,705	100
Total						35,420	

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*Where deal values are available

Food retail

International food retail transactions

Food retail has been the retail subsector that has had the highest level of M&A activity, accounting for 36% of all transactions.

Investors have been attracted to the food retail subsector. Food retail is generally considered to be one of the most resilient retail sectors as the level of discretionary spending tends to be lower.

Food distributors

The largest Australian food retail transaction was Bright Food's acquisition of Manassen Foods. The largest food retail deal internationally also involved the acquisition of a food distributor; Temasek Holdings' acquisition of Olam. Both these transactions reflect the strong interest in global food assets, as companies seek to capitalise on growth opportunities arising from growing populations, increasing incomes and a greater appetite in Asia for Western foods.

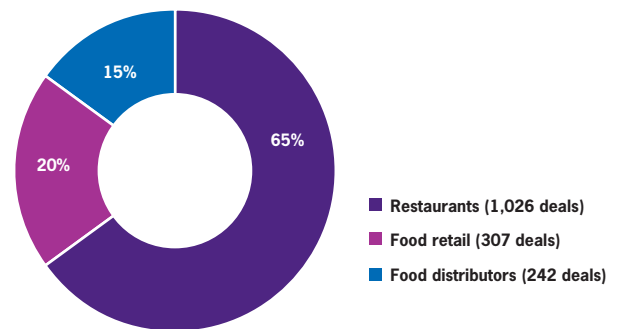
Supermarkets

Globally, many of the largest transactions in the food retail sector involved large grocery chains purchasing other large grocery chains. Many of these were driven by a desire to expand their geographical footprint and improve competitiveness, by accessing cost savings from improved systems procurement and inventory management.

The largest supermarket transactions involved the purchase of other supermarkets in the same region. Nonetheless, there is a desire by some of the large supermarkets to further expand their businesses internationally.

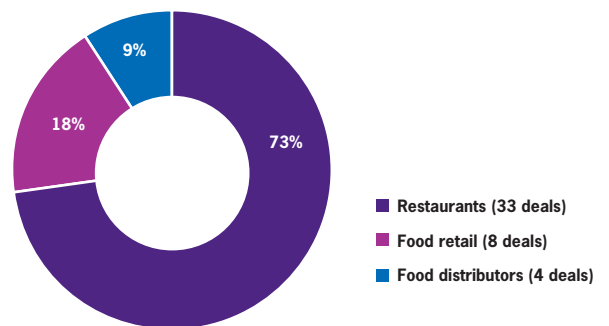
Another key factor driving some acquisitions was the ability to be able to offer competitive prices on a broad range of products. This was a key factor behind ASDA Stores' acquisition of Netto Foodstores.

International deal distribution



Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

Australian deal distribution



Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

Restaurants

Restaurants were the premier choice for acquirers within the subsector, accounting for 65% of all food retail transactions globally and 73% of food retail transactions in Australia.











We also note:

- Restaurant chain businesses were particularly popular with PE buyers, who were looking for profitable, multi site businesses, with strong brands and growth potential.
- International PE acquisitions include Bain Capital's acquisition of Skylark in Japan and Apollo Global's acquisition of CEC Entertainment. The largest Australian PE acquirer of a Food Retail business was Archer Capital, who purchased QSRH.
- These PE buyers have the systems, processes, food retail experience and access to finance required to fast track the growth of these restaurant businesses.
- Acquirers also included a number of corporates buyers. Several of these were seeking to expand their businesses into new geographic regions, for example, Collins Foods' acquisition of Competitive Foods was to help build its presence in WA and NT. Others were seeking to build scale by acquiring strong brands in niche segments of the market, for example, Retail Food Group's acquisition of Crust Gourmet Group and Pizza Capers.
- Several of the larger food retail transactions in Australia during the observed period also included the acquisition of a number of pubs. For example, IRIS Hotel Group's acquisition of P.J.Gallaghers Irish Pub at Parramatta and Australian Leisure and Hospitality Group Limited's acquisition of The Gap Tap.



Food retail

Top 10 Australian food retail transactions by deal value*

Buyer	Target	Target sector	Target country	Acquirer country	Date	Deal value (A\$m)	% Aquired
Bright Food (Group) Co., Ltd.	Manassen Foods Australia.		Australia	China	NA	516	75
Archer Capital Pty Ltd.	Quick Service Restaurants Holdings Pty Limited.		Australia	Australia	13/06/11	450	100
Bain Capital, LLC.	Retail Zoo Pty Ltd.		Australia	United States	30/05/14	185	70
Collins Foods Limited. (ASX:CKF)	Competitive Foods Pty Ltd.		Australia	Australia	07/03/14	56	100
Retail Food Group Limited. (ASX:RFG)	Crust Gourmet Group Pty Ltd.		Australia	Australia	19/10/12	45	100
Maruha Nichiro Corporation.	Austral Fisheries Pty Ltd.		Australia	Japan	04/12/13	44	50
NA	Tea Gardens Hotel.		Australia	NA	16/05/14	37	100
Bidvest Australia Limited.	Foodlink Queensland.		Australia	Australia	30/04/12	31	100
Retail Food Group Limited. (ASX:RFG)	Pizza Capers Pty Ltd.		Australia	Australia	02/04/12	30	100
Equity Partners.	Tasman Fresh Meats Pty Ltd.		Australia	Australia	26/08/13	27	53
Total						1,421	

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*Where deal values are available





Food distributors



Restaurants



Food retail

Top 10 international food retail transactions by deal value*

Buyer	Target	Target sector	Target country	Acquirer country	Date	Deal value (A\$m)	% Acquired
Temasek Holdings (Private) Limited.	Olam International Limited. (SGX:032)		Singapore	Singapore	23/05/14	11,758	75.43
Bain Capital Private Equity.	Skylark Co., Ltd.		Japan	United States	30/11/11	3,303	99
Albertsons, LLC.	New Albertson's, Inc.		United States	United States	21/03/13	3,120	100
The Kroger Co. (NYSE:KR)	Harris Teeter Supermarkets, Inc.		United States	United States	28/01/14	2,904	100
Apollo Global Management, LLC. (NYSE:APO)	CEC Entertainment Inc.		United States	United States	14/02/14	1,510	100
Casino, Guichard-Perrachon Société Anonyme. (ENXTPA:CO)	Monoprix SA.		France	France	24/07/13	1,457	50
H2O Retailing Corporation. (TSE:8242)	Izumiyi Co. Ltd.		Japan	Japan	28/05/14	1,363	100
ASDA Stores Limited.	Netto Foodstores Limited.		United Kingdom	United Kingdom	13/04/11	1,335	100
Etablissements Delhaize Frères et Cie "Le Lion" (Groupe Delhaize) Société Anonyme. (ENXTBR:DELB)	Delta Maxi d.o.o.		Serbia	Belgium	27/07/11	1,282	100
Jumbo Groep Holding B.V.	C1000 B.V.		Netherlands	Netherlands	21/02/12	1,233	100
Total						29,265	

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*Where deal values are available

“The Melbourne food and coffee market is one of the most competitive in the world. Many of the large international brands have not been successful in Melbourne as they have not analysed the culture of the local market. Degani’s approach has been to focus on being attractive to middle class Australian families by consistently providing high quality, traditional food and coffee at cost effective prices. We have also added healthy options to our menu in response to an increasing trend towards healthy eating”

George Pezaros, Degani Bakery Cafe

Wholesalers/Distributors

Wholesalers/Distributors

In the distribution sector, we have seen a number of businesses making acquisitions to seek growth opportunities from the difficult market conditions.

One of the largest examples was Toyota Tsuho Corp's (TTC) acquisition of CFAO, which it purchased to diversify out of the struggling automotive sector and expand its business in Africa. CFAO distributes a broad range of goods including vehicles, pharmaceuticals, machinery consumer goods and technology products.

Top 10 international wholesalers/distributors transactions by deal value*

Buyer	Target	Target country	Acquirer country	Date	Deal value (A\$m)	% Aquired
Golden Agri-Resources Ltd. (SGX:E5H)	PT Sinarmas Distribusi Nusantara.	Indonesia	Singapore	02/06/14	3,071	100
Toyota Tsusho Corp. (TSE:8015)	CFAO. (ENXTPA:CFAO)	France	Japan	17/12/12	2,942	68.05
Constellation Beers Ltd.	Crown Imports LLC.	United States	United States	07/06/13	1,802	50
Coca-Cola FEMSA S.A.B de C.V. (NYSE:KOF)	Consortio La Pureza De Bebidas S.A. de C.V.	Mexico	Mexico	11/10/11	775	100
Coca-Cola FEMSA S.A.B de C.V. (NYSE:KOF)	Grupo Yoli, S.A. de C.V.	Mexico	Mexico	24/05/13	711	100
Intermediate Capital Group PLC. (LSE:ICP)	Euro Cater A/S.	Denmark	United Kingdom	28/06/13	544	100
AXA Private Equity.	Schustermann & Borenstein GmbH.	Germany	France	06/08/12	352	NA
Woolworths Limited. (ASX:WOW)	Cellarmaster Wines Pty Limited.	Australia	Australia	29/04/11	344	100
LG Household and Health Care, Ltd. (KOSE:A051900)	EVERLIFE Co., Ltd.	Japan	South Korea	25/01/13	291	100
Saputo Inc. (TSX:SAP)	Fairmount Food Group, LLC.	United States	Canada	25/03/11	267	100
Total					11,100	

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*Where deal values are available





Top 10 Australian wholesalers/distributors transactions by deal value*

Buyer	Target	Target country	Acquirer country	Date	Deal value (A\$m)	% Aquired
Woolworths Limited. (ASX:WOW)	Cellarmaster Wines Pty Limited.	Australia	Australia	29/04/11	344	100
Anchorage Capital Partners.	DSE Holdings Pty Limited.	Australia	Australia	26/11/12	94**	100
Neopost S.A. (ENXTPA:NEO)	GBC/Fordigraph Pty Ltd.	Australia	France	10/06/11	53	100
Shiro Australia Pty Ltd.	Hagemeyer Brands Australia Pty Ltd.	Australia	Australia	29/07/11	32	100
Ames True Temper, Inc.	Northcote Pottery Pty Ltd.	Australia	United States	31/12/13	27	100
McPherson's Consumer Products Pty Ltd.	Electrical Distributors Australia Pty. Ltd., Inc.	Australia	Australia	28/03/13	23	82.2
Valeant Pharmaceuticals International, Inc.	Ganehill Pty Limited.	Australia	Canada	04/04/11	19	100
Kemp & Denning Limited.	Brewster Ltd.	Australia	Australia	02/02/11	8	100
Tileworld Sdn. Bhd.	Norcros Industry (Pty) Ltd.	Australia	Malaysia	30/05/14	8	100
Total					512	

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*Where deal values are available

**Initial consideration A\$20m

Australian success story

Anchorage Capital Partners' acquisition of DSE Holdings Pty Ltd (Dick Smith) and its subsequent listing on the Australian Securities Exchange (ASX) was a great success story for the industry. Woolworths sold the business at a time of low profitability levels arising from high levels of competition in the electronics category. The electronics retail subsector was particularly suffering from increased competition from online retailers and price deflation caused by reduced discretionary spending levels.

Anchorage purchased the business from Woolworths in November 2012 with the final consideration being A\$94 million. Anchorage appointed new management and was able to substantially improve results within a year by implementing new strategic, customer and operational programs. The business was listed just over one year later at an implied equity value of A\$520 million.

The Dick Smith transaction shows that retail businesses with great management teams, strong brands, a dedicated focus and a successful omni-channel business model can perform well even in sectors most impacted by the difficult market conditions.

Valuation multiples

Background information

Businesses in the Retail sector are often valued based on a multiple of earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is typically used as a measure of earnings for valuation purposes, as it reflects the financial performance of the business, before taking into account how it is funded. A multiple of EBITDA provides an Enterprise Value (EV) of the business (i.e. the value of the business before deducting net debt).



This analysis indicates that once retail businesses reach a certain size (greater than \$100m in revenue), size does not seem to be a significant determinate of value.

Instead, a number of other key factors are driving valuation multiples in the retail sector. These factors include: the strength of the brand names, the potential for business expansion, the size of the online offering and the regions in which the business operates in.

Global median transaction multiples of deals per target revenue size range (based on available data)

Revenue Range	Number of deals	Median EV/EBITDA multiples
Less than \$20m	7	4.4x
Between \$20m to \$50m	10	7.2x
Between \$50m to \$100m	10	7.9x
Between \$100m to \$200m	31	8.5x
Between \$200m to \$500m	24	10.4x
Over \$500m	55	8.2x
Total	137	
Median		8.5x

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*137 deals with target revenue and available EBITDA multiples

Global median trading multiples of listed companies by revenue size range (based on available data as at 30 June 2013)*

Revenue Range	Number of companies	Median EV/EBITDA multiples
Less than \$50m	33	9.5x
Between \$50m to \$100m	48	8.3x
Between \$100m to \$200m	69	7.0x
Between \$200m to \$500m	134	9.8x
Between \$500m to \$1b	143	8.9x
Over \$1b	384	8.5x
Total listed companies	811	
Median multiples (entire revenue range)		8.6x

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*For companies with positive EBITDA

Valuation multiples by subsector

Online retail businesses have achieved the highest transaction multiples. This is not surprising given the strong growth prospects for the business and the desire by many acquirers to purchase leaders in the segment in order to gain immediate scale in the sector. The online businesses that have achieved the highest valuations were those with a reasonable degree of scale in a specialty niche.

The transaction multiples of the large retail stores are substantially higher than the median trading multiples of the listed stores at 30 June 2014. There were a number of large retail store transactions that achieved premium multiples due to their strong brand and/or growth prospects. Listed company multiples have been trending upwards in most sectors, reflecting expectations of an improved retail outlook.

The exception to this are large retail stores, whose median trading multiples have been slightly more volatile. This may be a reflection of investor caution around how these large retail stores will respond to the increasing number of niche online competitors and large global competitors entering new markets. In Australia, it will be interesting to see how the impact of new global entrants will affect the financial performance of Myer and David Jones.

The Federal Court has recently approved South African Woolworth's takeover offer of David Jones. The offer was at a significant premium to the price at which David Jones' shares were trading prior to the initial Myer offer at the end of January. The David Jones shareholders recommended the Woolworths offer to shareholders, as in their view, it was substantially better than the value that could be created through David Jones' five year plan.

Median transaction multiples of deals per target subsector (based on available data)

Subsector	Number of deals	Median Revenue at transaction date (A\$m)	Median EV/EBITDA
Online Retail	18	152	12.0x
Large Retail Stores	5	3,091	10.2x
Consumer Goods Retail	49	713	8.4x
Food Retail	48	362	8.0x
Distributors/Wholesalers (Ex. Food)	17	109	7.0x
Total	137		
Median (entire industry)		324	8.5x

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

Online retailers achieve both the highest transaction valuation multiples and trading company multiples, at least for now...

Median trading multiples of listed companies (all exchanges) per target subsector*

Subsector	Number of Companies	Median Revenue as at 30 June 2013 (A\$m)	Median EV/EBITDA Multiples			
			30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14
Online Retail	66	421	8.2x	9.3x	11.2x	11.5x
Food Retail	280	920	7.3x	7.4x	9.0x	9.4x
Distributors/Wholesalers (Ex. Food)	74	433	6.7x	5.8x	7.4x	9.4x
Consumer Goods Retail	320	995	6.6x	6.1x	8.1x	7.8x
Large Retail Stores	71	2,793	8.1x	8.1x	9.8x	7.4x
Total	811					
Industry Median		931	7.1x	6.8x	8.6x	8.8x

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*For companies with positive EBITDA

Valuation multiples by region

The highest transaction multiples have been achieved in regions outside the US, Europe and Asia Pacific. This most likely reflects the larger median size of the businesses in these regions (on which we have been able to source valuation multiples). It may also reflect the high growth prospects expected from large retail businesses with operations in emerging economies, such as Brazil.

Median retail valuation multiples in the US have been higher than those in Europe or Asia Pacific. This is due to a combination of factors, including the US businesses being larger businesses with stronger brands and generally more developed multi-channel retail strategies. It is also likely to be partly attributable to higher valuations of US equities in general, a result of the recent US monetary policy changes.

The median Australian transaction multiples (where multiples have been available) have been influenced by some transactions that have occurred at arguably low valuations. These include Anchorage's acquisition of Dick Smith, which was discussed on page 23 and Country Road's acquisition of the Witchery Group, which occurred at a multiple of 5.3 times historical EBITDA. Many in the industry were surprised at the low multiple at which the Witchery Group transacted, having regard to its strong brand name and the size of the business. This was most likely a reflection of the transaction occurring at a time when Australian retail conditions were particularly subdued.

Median transaction multiples of deals per region

Region	Number of deals	Median revenue at transaction date (A\$m)	Median EV/EBITDA
US and Canada	49	618	9.0x
Asia Pacific	43	211	8.0x
Europe	41	166	7.7x
Other	4	1,006	12.2x
Total	137		
Median across all regions			8.5x

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*137 deals with available transaction multiples

Median transaction multiples of deals by country in Asia Pacific region*

Asia Pacific Country	Number of deals	Median EV/EBITDA
Japan	22	6.9x
Australia	7	5.3x
China	2	13.3x
Hong Kong	2	19.1x
Other	10	11.7x
Total	43	
Median across all regions		8.0x

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*For companies with positive EBITDA

Median trading multiples of listed companies per region by median revenue*

Regions	Number of companies	Median revenue as at 30 June 2013	FY11 median EBITDA multiple	FY12 median EBITDA multiple	FY13 median EBITDA multiple
US and Canada	240	1,508	7.5x	7.5x	9.8x
Europe	152	990	7.3x	7.0x	8.7x
Asia Pacific	395	639	6.1x	5.8x	7.7x
Other	24	3,652	10.0x	11.3x	12.5x
Total	811				
Industry median			7.1x	6.8x	8.6x

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

*For companies with positive EBITDA



Initial Public Offerings

Considering the size of the retail sector globally, there were relatively few Initial Public Offerings (IPOs) in the period, with the largest IPO raising A\$2 billion. This was the listing of Hong Kong's Chow Tai Fook Jewellery Group. Another large listing on the Hong Kong stock exchange was that of Sun Art Retail Group Limited, which has been one of the more successful of the largest IPOs.











The top 10 international IPOs accounted for 52% of the total value raised by all 97 listings over the observed period. The generally low IPO levels during the period is a reflection of the depressed market conditions.

IPOs by subsector

Subsector	Number of IPOs	Total offering size (A\$m)	Percentage of total value
Consumer Goods Retail	32	10,450	44%
Online Retail	21	5,350	23%
Food Retail	33	4,984	21%
Large Retail Stores	4	2,411	10%
Distributors/Wholesalers (Ex.Food)	7	383	2%
Total	97	23,578	100%

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

Top 10 international IPOs by offering size

Company	Listing date	Subsector	Company/Headquarters	Exchange country	Offering size (A\$m)	IPO price (A\$)	Price at 30/06/2014 (A\$)	Price change
Chow Tai Fook Jewellery Group Ltd. (SEHK:1929)	14/12/11		Hong Kong	Hong Kong	2,044	1.95	1.62	-17%
JD.com, Inc. (NasdaqGS:JD)	21/05/14		China	United States	1,931	20.61	30.23	47%
B&M European Value Retail S.A. (LSE:BME)	12/06/14		Luxembourg	United Kingdom	1,930	4.82	4.99	3%
Acros Dorados Holdings, Inc. (NYSE:ARCO)	13/04/11		Argentina	United States	1,188	16.17	11.88	-27%
Lenta Ltd. (LSE:LNTA)	28/02/14		Russia	United Kingdom	1,066	11.19	13.68	22%
Sun Art Retail Group Limited. (SEHK:6808)	25/07/11		Hong Kong	Hong Kong	973	0.85	1.21	43%
Pets at Home Group Plc. (LSE:PETS)	12/03/14		United Kingdom	United Kingdom	907	4.54	3.72	-18%
ARAMARK Holdings. Corporation (NYSE: ARMK)	11/12/13		United States	United States	801	22.08	27.44	24%
AO World Plc. (LSE:AO.)	26/02/14		United Kingdom	United Kingdom	785	5.29	4.67	-12%
Poundland Group plc. (LSE:PLND)	12/03/14		United Kingdom	United Kingdom	694	5.55	5.75	4%

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

In total there were 97 IPOs over the observed period, with nearly half of these being in the Asia Pacific region (the largest IPOs in Asia Pacific were in Hong Kong, Australia and New Zealand.)

Three Australian companies listed on the ASX in the second quarter of 2014. Those were; Burson Group Limited (ASX:BAP) at a listing price of \$1.82; The PAS Group Limited (ASX:PGR) at a listing price of \$1.15 and Beacon Lighting Group at \$0.66 per share, which at 30 June 2014 was trading 57% higher than its offer price.

The share price of Collins Foods at 30 June 2014 was 17% below its offer price, indicating that the business had not been performing as well as expected on listing, particularly the 'Sizzler' chain of restaurants. However, it is worth noting that at the date of writing this report, many of the analysts had a buy rating for Collins Foods, and expected strong growth in their earnings from operational and efficiency initiatives.

It is also interesting to note that Australian retailer, Mysale, listed on London's AIM market in June 2014, making it the largest Australian AIM listed company by market capitalisation as at 30 June 2014. Mysale raised £40m (A\$72.4m) on listing plus sold existing shares of £75m (A\$135.8m).

IPOs by region

Subsector	Number of IPOs	Total offering size (A\$m)	Percentage of total value
Asia Pacific	42	5,100	22%
US and Canada	40	11,000	47%
Europe	12	6,523	28%
Americas (ex.US and Canada)	3	956	4%
Total	97	23,578	100%

*Region classified by exchange country of entity







Sources: S&P Capital IQ, Mergermarket

IPOs by size range

Offering size	Number of deals	Total offering size (A\$m)	Percentage of total value
Less than \$50 million	30	2,435	10%
Between \$50 million to \$100 million	14	954	4%
Between \$100 million to \$200 million	20	2,520	11%
Between \$200 million to \$500 million	21	5,684	24%
Over \$500 million	12	11,985	51%
Total	97	23,578	100%

Sources: S&P Capital IQ, Mergermarket, Grant Thornton analysis

Largest Australian IPOs by offering size

Company	Listing date	Subsector	Offering size (\$m)	Forecast EBITDA (\$m)	EBITDA Forecast multiple
Dick Smith Holdings Limited. (ASX:DSH)	03/12/13		A\$345	A\$72	7.4x
Trade ME Group Ltd. (NZSE:TME)	13/12/11		NZ\$363	NZ\$111	11.1x
Burson Group Limited. (ASX:BAP)	23/04/14		A\$220	A\$40	9.4x
Collins Foods Limited. (ASX:CKF)	04/08/11		A\$202	A\$59	5.7x
The PAS Group Limited. (ASX:PGR)	13/06/14		A\$121	A\$33	4.8x
Beacon Lighting Group Limited. (ASX:BLX)	10/04/14		A\$64	A\$19	7.4x

Sources: S&P Capital IQ, Mergermarket

Shopping for growth: Are you securing the success of your Retail business?

Retailers will need to continue to adapt to the changing landscape. Retailers should consider both organic and M&A strategies to leverage potential opportunities both in Australia and overseas.

The Grant Thornton Retail team can help you consider the best approach to each of these important questions:

Retail	Why it's important	Some key questions to ask yourself or your retail clients
Omni channel strategy	It is all about making it convenient for customers to readily buy your products in the manner and way that best suits them at any particular time.	<ul style="list-style-type: none"> • Are you using multiple sales channels to grow your revenues and build your brand? • Is your online presence helping you in store? • How fast is your website and is it mobile optimised? • How 24 hour is your offering? • How seamless are your online and physical stores? For example, if a customer buys something online, can they return it in a store? • Are you re-examining the financial viability of your store footprint? • Have you re-negotiated or exited your lease obligations for under-performing stores?
Global competitiveness	Retail competition will continue to increase as global retailers continue to market to Australian customers through their online strategies. Furthermore, the number of global entrant stores is forecast to grow to around 200 stores in Australia by 2016, with many taking prime anchor tenancies.	<ul style="list-style-type: none"> • Are you offering your customers an experience – not just a transaction, but a deeper connection? • How customer centric is your offering? Are you providing ancillary services such as café, free wifi? • Are your store locations able to leverage from foot traffic to the new global retailers? • How well does your website lead the user and how well does your site “know” the user? • Do you have the right SKUs and levels of inventory to offer customers product choices, whilst still responding quickly to customer orders? • Are your inventory levels sufficiently accurate?
Changes in technology	Consumers are increasingly using smartphones and tablets to find product information as they shop or dine.	<ul style="list-style-type: none"> • Are you using big data to better understand consumers and identify trends before your competitors? • Are you using social media and other information technologies to build brand awareness and loyalty and to market to individuals (e.g. emails, online advertising, online search engines, Twitter and digital coupons)? Are you monitoring and measuring the value of these efforts?
Niche segments	Consumer trends are changing. For example, there is a growing trend by customers towards healthier food products, fitness wear and lifestyle.	<ul style="list-style-type: none"> • Are you innovating and offering something new to customers to meet these trends? • Is there an opportunity to become the leading retailer in a niche, growing segment?
M&A opportunities	By making strategic acquisitions or divestments, you can more quickly leverage the opportunities arising in the market.	<ul style="list-style-type: none"> • Could you buy a business to help quickly develop a strong online offering, broaden your product range, access new stores or brands, improve your bargaining power with suppliers or gain economies of scale? • Do you have a strategy in place to ensure that you will maximise the value of your business on exit?
Opportunities in other markets	There are huge opportunities for Australian retailers to grow their businesses in Asia, as two thirds of the global middle class is expected to be in the Asia Pacific region by 2030.	<ul style="list-style-type: none"> • Have you undertaken appropriate market research to really understand the opportunities that might exist for your business outside Australia, particularly in Asia? • Have you developed the right relationships and implemented appropriate management structures and logistics to support increased export sales to Asia? • Have you considered transfer pricing strategies and issues? • Are you accessing all available government grants and tax opportunities associated with innovation, investment and expansion?
Funding	Banks and private equity firms are currently keen to finance quality businesses in the retail sector. It is a good time to ensure that you have the optimal funding arrangements in place.	<ul style="list-style-type: none"> • Do you have cost-effective funding in place to support your growth strategy? If not, have you prepared detailed business and financial plans to enable you to secure this financing? • Do you need to restructure your debt to make cash flow more available? • Have you considered alternative financing options, such as co-investment by a Private Equity firm?

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Contact Grant Thornton Australia

Key contributor

Liz Smith

Head of Research, Advisory
T +61 3 8663 6125
E liz.smith@au.gt.com

National Retail Leader

Simon Trivett

National Retail Industry Leader
T +61 3 8663 6001
E simon.trivett@au.gt.com

Corporate Finance contacts

Adelaide

Level 1
67 Greenhill Road
Wayville SA 5034
T +61 8 8372 6666
F +61 8 8372 6677
E info.sa@au.gt.com

Dean Marsh

T +61 8 8372 6604
E dean.marsh@au.gt.com

Brisbane

King George Central
Level 18, 145 Ann Street
Brisbane QLD 4000
T +61 7 3222 0200
F +61 7 3222 0444
E info.qld@au.gt.com

Graham McManus

T +61 7 3222 0224
E graham.mcmanus@au.gt.com

Cairns

Cairns Corporate Tower
15 Lake Street
Cairns QLD 4870
T +61 7 4046 8888
F +61 7 4051 0116
E info.cairns@au.gt.com

Tony Jonsson

T +61 7 4046 8850
E tony.jonsson@au.gt.com

Melbourne

The Rialto, Level 30
525 Collins Street
Melbourne VIC 3000
T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com

Cameron Bacon

T +61 3 8663 6366
E cameron.bacon@au.gt.com

John Blight

T +61 3 8320 2203
E john.blight@au.gt.com

Peter Thornely

T +61 3 8663 6229
E peter.thornely@au.gt.com

Phil Rundle

T +61 3 8320 2140
E phil.rundle@au.gt.com

Perth

Level 1
10 Kings Park Road
WEST PERTH WA 6005
T +61 8 9480 2000
F +61 8 9322 7787
E info.wa@au.gt.com

Mitesh Ramji

T +61 8 9480 2110
E mitesh.ramji@au.gt.com

Sydney

Level 17
383 Kent Street
Sydney NSW 2000
T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com

Neil Cooke

T +61 2 8297 2521
E neil.cooke@au.gt.com

Andrea De Cian

T +61 2 8297 2554
E andrea.decian@au.gt.com

Gayle Dickerson

T +61 2 8297 2706
E gayle.dickerson@au.gt.com

Paul Gooley

T +61 2 8297 2586
E paul.gooley@au.gt.com

Holly Stiles

T +61 2 8297 2487
E holly.stiles@au.gt.com

In preparing this publication, we have relied upon the following key sources of information, including: Standard & Poor's Capital IQ, Mergermarket, IBISWorld and other publicly available information. We have considered transactions during the period between 1 January 2011 to 30 June 2014 where the acquirer gained control of the target company and where the target company's primary sector was classified under S&P Capital IQ coding to be within Food Retail, Distributors/ Wholesalers (ex. Food), Consumer Goods Retail, Online Retail and Large Retail Stores.

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