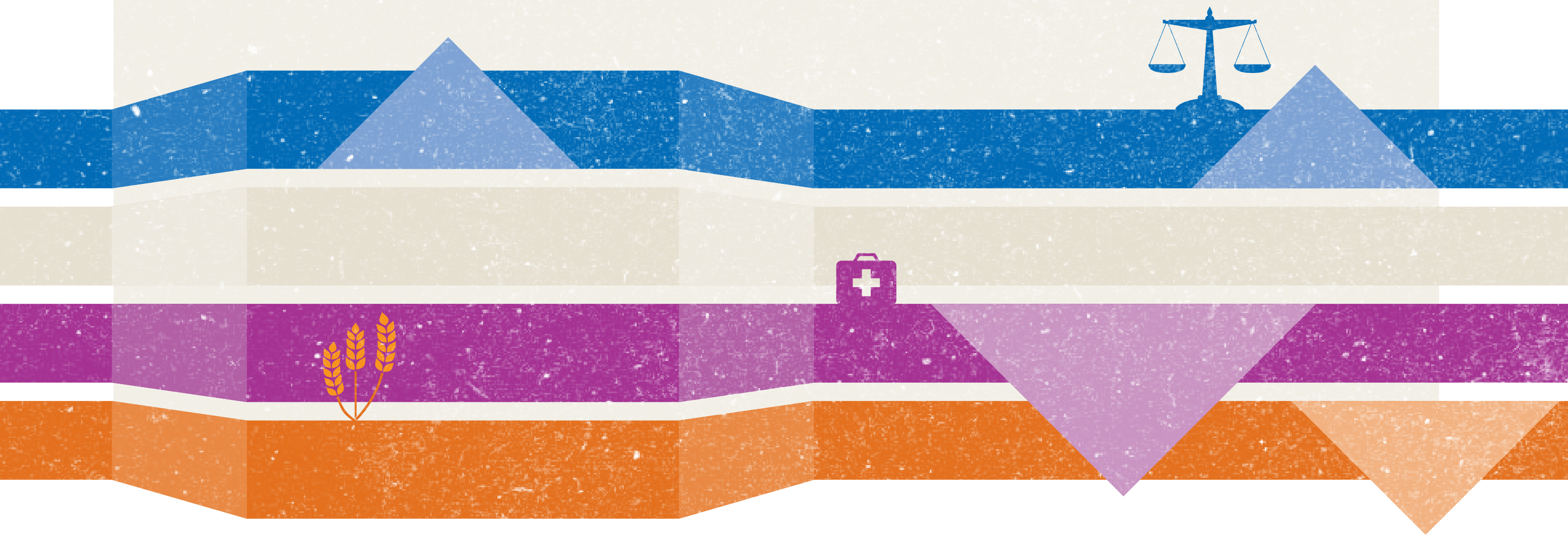
Grant Thornton
An instinct for growth™

2014

Dealtracker update

M&A and IPO snapshot for 2013

Contents



Summary of findings

In 2013, the level of Mergers & Acquisitions (M&A) in Australia remained relatively weak, a trend we already saw in the previous year. In total there were 679 deals, a slight increase from last year's 633 deals. Still, the M&A activity in 2013 was well below the average deal levels for the past 10 years.*

Lower exchange rates renewed consumer spending and improving share market conditions should enhance deal activity in 2014.

This edition of Dealtracker update, M&A and IPO Snapshot for 2013 – provides an overview of Australian deals and ASX market activity during the 12 month period to 31 December 2013. This edition is an update on our Dealtracker – Flight to Quality publication for the 18 month period to 31 December 2012. A full Dealtracker for the 18 month period to 30 June 2014 is planned for later this year.

Key insights:

1 **Market conditions were still difficult in 2013**

The deal levels reflect low market confidence as businesses struggle with poor customer demand, high exchange rates and energy and wage cost pressures. Companies are risk averse and are generally seeking profit growth primarily through cost cutting.

Nonetheless, companies with strong growth agendas are still looking for acquisition opportunities to create long term strategic value.

2 **M&A activity was still largely in low growth sectors**

A high proportion of the total M&A deals that occurred were in low growth sectors of the economy. Many of the transactions that we have worked on in low growth sectors have been driven by the need for business restructuring and debt refinancing.

3 **Resources sector was out of favour**

There is evidence of significantly lower valuations of companies in the resource sector as a result of lower commodity prices, increasing exploration costs and reduced investment confidence following the deferral of a number of major investment projects, such as the $8 billion Olympic Dam project by BHP.

There has also been a clear trend away from IPOs in the materials (mining) sector. IPOs in recent years had previously been dominated by speculative interest in small exploration and mining companies. However, the changed market conditions in this sector are making it extremely difficult for junior miners and explorers to gain investment funding and therefore there were only seven new IPOs in this sector in 2013.

4 **High growth businesses are in demand and becoming expensive**

The general lack of confidence in market conditions has resulted in a shortage of quality, high growth businesses on the market. Acquisition opportunities in these high growth sectors are often being heavily contested, resulting in high transaction values. The Investment Managers (IM) in particular are chasing deals in the high growth sectors of the market. Some of the largest IM deals occurred in infrastructure, healthcare, food and online education.

5 **Signs of confidence**

Whilst M&A deal levels are still far from buoyant, M&A confidence did appear to improve in the latter half of 2013, with 23% more deals compared to the first half. The IPO market also opened in the last quarter of 2013, with 30 new listings and $6,110m of capital being raised in this last quarter alone. IPOs in December 2013 included Pact Group Holdings Limited, Nine Entertainment Co. Holdings Limited, Cover-More Group Limited, Dick Smith Holdings Limited and Veda Group Limited.

*We have considered transactions where the target company was in Australia and the acquirer gained control of the company.

M&A deal numbers

*Whilst deal volumes in 2013 were up 7% from 2012, they were 14.6% lower than in 2011. Depressed M&A levels are not unique to Australia, as 2013 was the slowest year for M&A activity globally since 2009.**

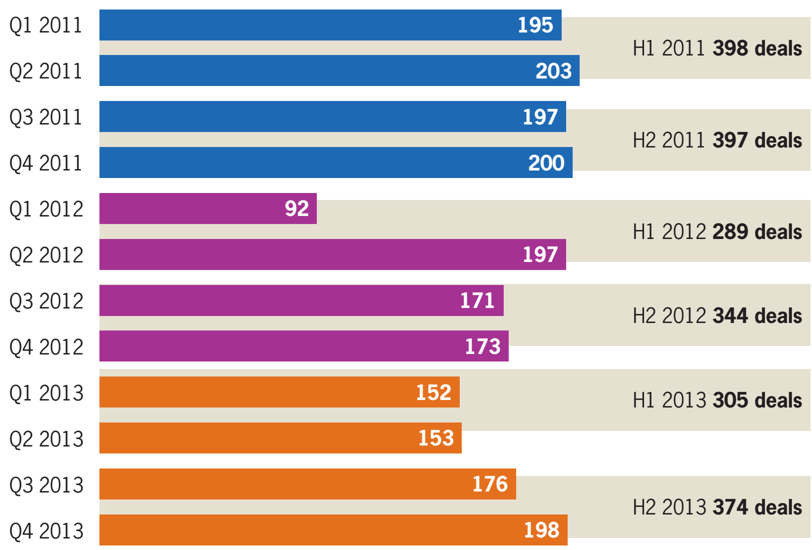
The acquisitions that are going ahead are generally taking longer to complete, as buyers are spending more time on due diligence to gain greater certainty over deal economics prior to entering into a transaction.

Furthermore, we have observed an increase in the number of potential deals failing to complete due to differences in pricing expectations arising during the course of the transaction. This trend is arising as a consequence of longer deal times and pressure being placed on target companies to demonstrate that they are able to meet forecasts. This can create a quagmire, as business performance is often undermined by the management team being distracted by the due diligence process.

Total deal numbers

Sources: S&P Capital IQ, Mergermarket

M&A Quarterly & Half-yearly Trends



Sources: S&P Capital IQ, Mergermarket

The good news is that Australian M&A confidence seems to be improving, as deal volumes were nearly 23% higher in the second half of 2013 relative to the first half.

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

M&A deals by sector

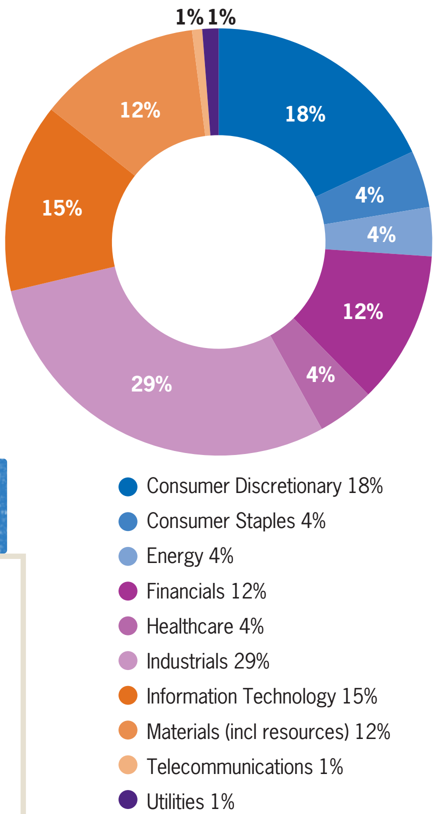
Overall, sector level activity was relatively comparable with 2012. The industries with the highest level of M&A activity were industries with comparatively low industry growth forecasts. Whilst many businesses in low growth industries are looking to achieve growth through M&A, M&A activity in poor performing sectors is also being driven by the need for corporate and debt restructuring.

IMs are chasing deals in the growth sectors of the market, with some of the largest IM deals occurring in infrastructure, healthcare, food and online education. Acquisition opportunities in these high growth sectors are often being heavily contested. An example of this was Inghams Enterprises, which had capacity to double its chicken production. Inghams Enterprises attracted interest from Blackstone Group, Chinese agribusiness giant New Hope, Hong Kong based private equity group Affinity Partners and local fund Archer Capital*.

Acquisition opportunities in high growth sectors are often being heavily contested, resulting in higher transaction values. This was evident towards the end of the year when we saw a bidding war for Warrnambool Cheese & Butter.

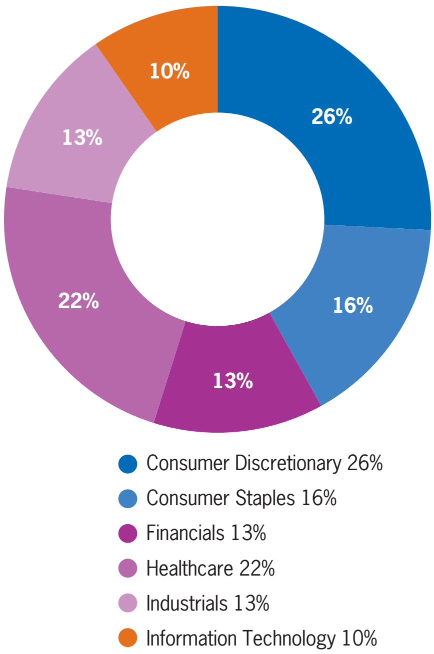
Corporate Sector Break Up (by volume)

Sources: S&P Capital IQ, Mergermarket



IM Sector Break Up (by volume)

Sources: S&P Capital IQ, Mergermarket



*Source: S&P Capital IQ

Top deals

The largest deal of the year was the NSW Ports Consortium acquisition of the 99 year lease of Port Botany from Sydney Ports.

The NSW Ports Consortium is made up of QSuper Ltd, AustralianSuper Pty Ltd, Tawreed Investments Ltd (subsidiary of Abu Dhabi Investments Authority), Industry Funds Management Pty Ltd, Host-Plus Pty Ltd, Cbus Industry Superannuation Fund and Hesta.

Many of the largest deals had international acquirers. This highlights that there is still interest from overseas businesses in Australian assets.

Top 10 IM Deals (by deal value)*

Buyer	Target	Deal value (A$million)
NSW Ports Consortium	Port Botany	4,310
TPG Capital, L.P.	Inghams Enterprises Pty Limited	880
NSW Ports Consortium	Port Kembla	760
Archer Capital Pty Ltd	Allity	270
Apollo Global, Inc.	Open Colleges Pty Ltd	163
Navis Capital Partners Limited*	Guardian Early Learning Group	120
Quadrant Private Equity Pty Limited	City Farmers Retail Pty Ltd	93
Next Capital*	Scottish Pacific Benchmark	90
Quadrant Private Equity Pty Limited	Estia Health Pty Ltd	90
BB Retail Capital Pty Ltd	Homemakers Supacenta – Belrose Pty Limited	88

Sources: S&P Capital IQ, Mergermarket
*These deals were secondary Private Equity deals

Top 10 Corporate Deals (by deal value)*

Buyer	Target	Deal value (A$million)
Jacobs Engineering Group Inc.	Sinclair Knight Merz Pty Ltd	1,300
B2Gold Corp.	CGA Mining Limited	1,142
The Kansai Electric Power Co Inc; Sumitomo Corporation	Bluewaters II; Bluewaters I	1,136
EBOS Group Ltd	Symbion Pty Ltd	990
China Molybdenum Co Ltd	Northparkes Mines	886
Abu Dhabi Investment Authority	Tourism Asset Holdings Ltd	800
Genuine Parts Company	Exego Group Pty Ltd	779
Windfield Holdings Pty Ltd	Talison Lithium Limited	732
Origin Energy Limited	Eraring Energy	659
Puma Energy International BV	Ausfuel Pty Ltd	625

Sources: S&P Capital IQ, Mergermarket
Note: Agrium Inc.'s acquisition of Viterra's Australian Agri-Products business was excluded as it was part of a global acquisition

*Our analysis covers deals where the acquirer purchased more than a 50% interest in the target

Top corporate deals by sector

Consumer Discretionary

Acquirer	Abu Dhabi Investment Authority	Genuine Parts Company
Target	Tourism Asset Holdings Ltd	Exego Group Ltd
Deal value	A$800 million	A$779 million

Consumer Staples

Acquirer	Cargill, Incorporated	King Bid Company Pty Limited
Target	Joe White Maltings Pty Ltd	Moraitis Group Pty Limited
Deal value	A$339 million	A$211 million

Energy

Acquirer	The Kansai Electric Power Co Inc Sumitomo Corporation	Origin Energy Limited
Target	Bluewaters II Bluewaters I	Eraring Energy
Deal value	A$1,136 million	A$659 million

Healthcare

Acquirer	EBOS Group Ltd	Bupa Australia Health Pty Ltd
Target	Symbion Pty Ltd	Dental Corporation Pty Ltd
Deal value	A$990 million	A$486 million

Industrials (Infrastructure)

Acquirer	Jacobs Engineering Group Inc	Queensland Motorways Pty
Target	Sinclair Knight Merz Pty Ltd	CLEM7 Tunnel
Deal value	A$1,300 million	A$547 million

Information Technology

Acquirer	Ontario Teachers' Pension Plan	iiNet Ltd
Target	Nextgen Networks Pty Ltd Metronode Pty Ltd Infoplex Pty Ltd	Adam Internet Holdings Pty Ltd
Deal value	A$620 million	A$60 million

Materials

Acquirer	B2Gold Corp	China Molybdenum Co Ltd
Target	CGA Mining Limited	Northparkes Mines
Deal value	A$1,142 million	A$886 million

Top IM deals by sector*

Industrials (Infrastructure)

Acquirer	NSW Ports Consortium	NSW Ports Consortium
Target	Port Botany	Port Kembla
Deal value	A$4,310 million	A$760 million

Consumer Discretionary

Acquirer	Apollo Global, Inc.	Quadrant Private Equity Pty Limited
Target	Open Colleges Pty Ltd	City Farmers Retail Pty Ltd
Deal value	A$163 million	A$93 million

Healthcare

Acquirer	Archer Capital Pty Ltd	Quadrant Private Equity Pty Limited
Target	Allity	Estia Health Pty Ltd
Deal value	A$270 million	A$90 million

Consumer Staples

Acquirer	TPG Capital, L.P.
Target	Inghams Enterprises Pty Limited
Deal value	A$880 million

Financials

Acquirer	Next Capital
Target	Scotish Pacific Benchmark
Deal value	A$90 million

*Only deals greater than $90million are listed

Australian Securities Exchange (ASX) median industry EBITDA multiples

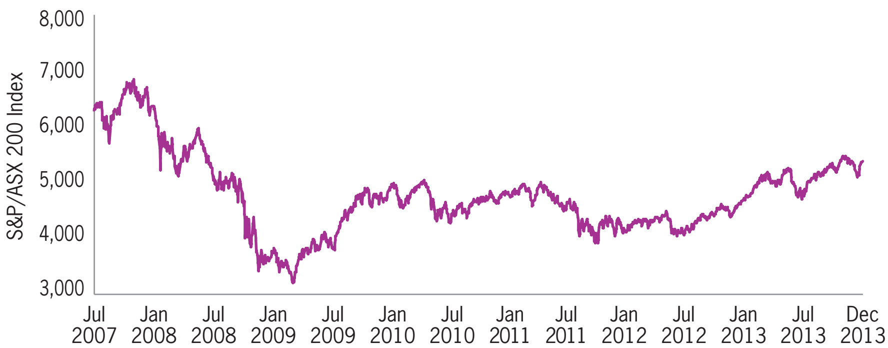
The S&P/ASX200 shows that Australian listed companies generally trended upwards in 2013, showing signs of improving market confidence.

The sectors with the highest median trading multiples continued to be healthcare and financials, with strong growth rates still forecast for these sectors.

Multiples in the information technology sector have improved in recent years, with the digital revolution expected to drive further growth.

Multiples in the materials (mining) sector have continued to fall as a result of declining commodity prices and better global demand/supply equilibrium.

Movement in the S&P / ASX 200 – Jul 2007 to Dec 2013



Source: S&P Capital IQ

Median industry EBITDA multiples observed on the ASX

	Median EV/ EBITDA	Median EV/ EBITDA	Median EV/ EBITDA	Median EV/ EBITDA	Median EV/ EBITDA	Median EV/ EBITDA	Median EV/ EBITDA	Median EV/ EBITDA
Industry	**30/06/07**	**30/06/08**	**30/06/09**	**30/06/10**	**30/06/11**	**30/06/12**	**31/12/12**	**31/12/13**
Consumer Discretionary	11.9	6.9	6.6	7.5	7.4	6.7	7.6	9.6
Consumer Staples	12.1	9.9	8.2	8.3	8.2	8.2	8.7	10.2
Energy	12.0	10.7	8.0	6.4	9.3	5.9	7.7	5.5
Financials	17.2	11.1	11.8	9.8	9.8	9.4	10.6	13.1
Health Care	13.3	9.3	7.8	7.0	7.0	9.6	11.2	16.8
Industrials	10.8	6.9	5.7	6.7	7.4	6.0	5.7	6.4
Information Technology	12.0	6.9	4.8	7.3	5.9	6.5	8.6	12.0
Materials	9.9	8.1	7.6	8.5	7.4	5.2	5.1	3.5
Telecommunication Services	10.7	5.7	3.9	6.2	5.8	6.7	9.8	10.8
Utilities	13.8	12.4	11.4	9.5	9.4	10.5	11.1	8.7
Overall	**12.5**	**8.4**	**7.1**	**7.6**	**7.8**	**6.8**	**7.6**	**8.2**

Sources: Bloomberg, S&P Capital IQ, Grant Thornton analysis
EBITDA: Earnings before interest, taxes, depreciation and amortisation
EV: Enterprise value

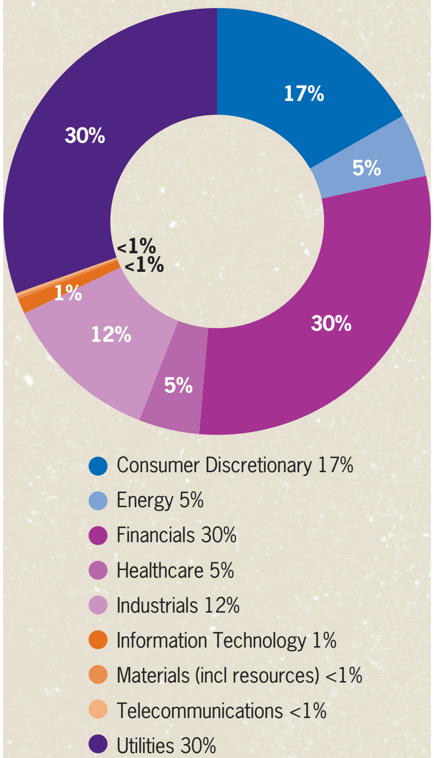
IPO snapshot

The IPO market opened up in the last quarter of 2013. Most IPO activity was in the financial and consumer discretionary sectors. There was a clear trend away from IPOs in the materials (mining) sector.

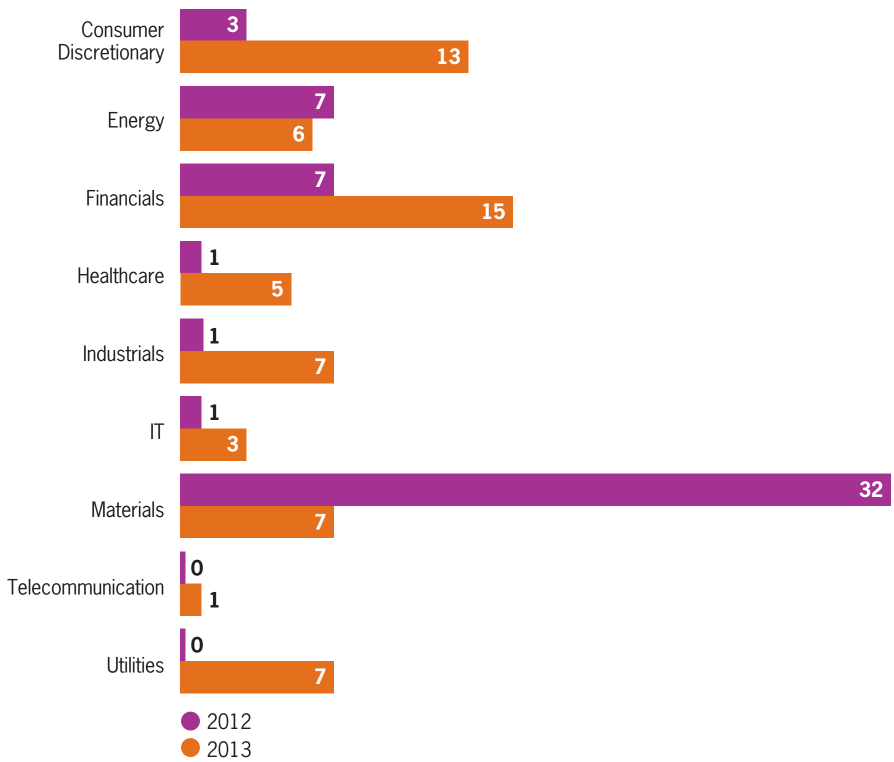
IPO activity increased significantly in 2013 compared with 2012. The number of IPOs increased from 52 to 64 and the value of IPOs increased from $1,521m to $9,883m. Most of the increased activity level occurred in the last quarter of 2013.

IPOs by Sector*

Sources: S&P Capital IQ, Mergermarket
*by offer size

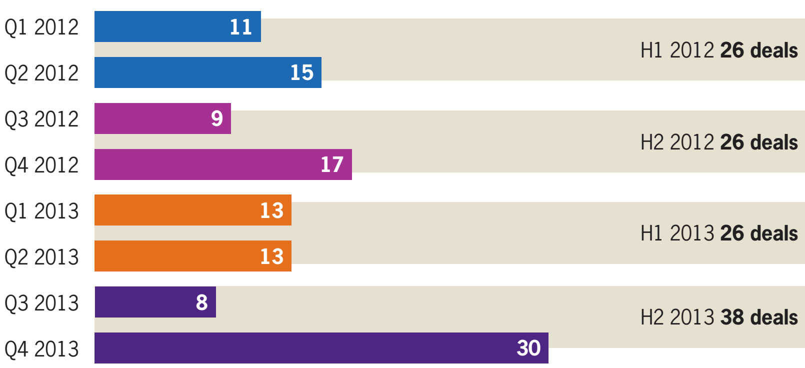


Number of IPOs by Sector



Sources: S&P Capital IQ, Mergermarket

IPO Quarterly & Half-yearly Trends



Sources: S&P Capital IQ, Mergermarket

Top IPOs by sector

Consumer Discretionary

Issuer	Nine Entertainment Co. Holdings Limited	Dick Smith Holdings Limited
Offer size	A$625 million	A$345 million

Financials

Issuer	Cover-More Group Limited	OzForex Group Limited
Offer size	A$521 million	A$439 million

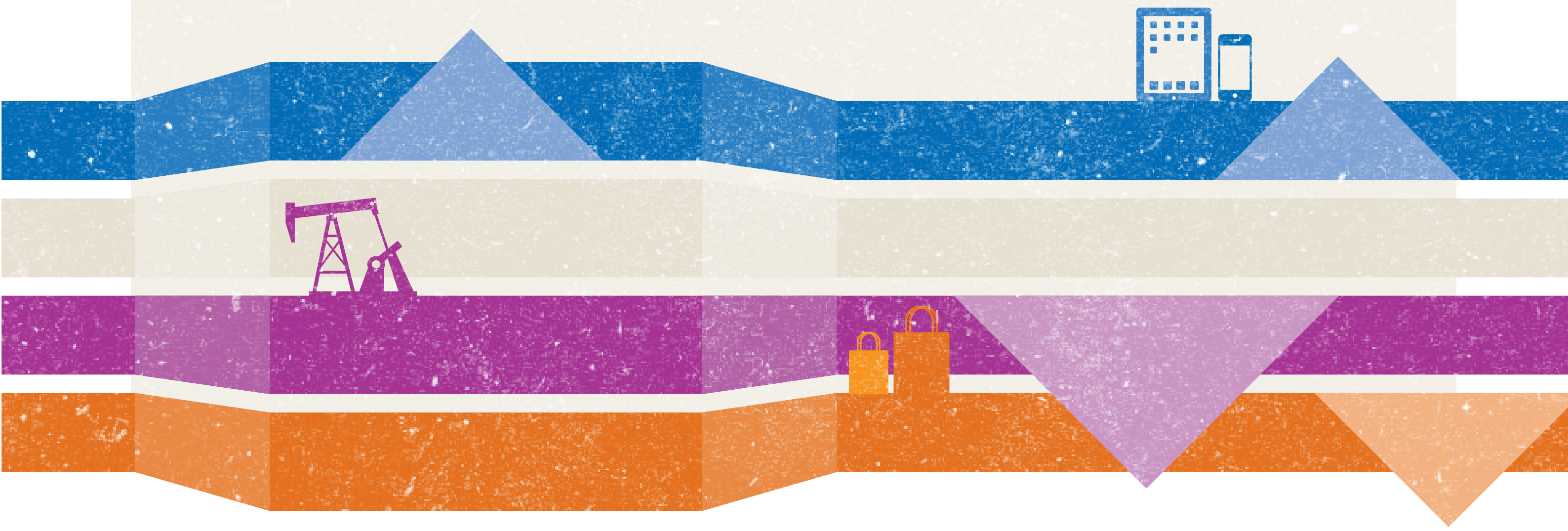
Industrials

Issuer	Pact Group Holdings Limited	Veda Group Limited
Offer size	A$649 million	A$341 million

Utilities

Issuer	Meridian Energy Ltd	Mighty River Power Ltd
Offer size	NZ$1,883 million	NZ$1,715 million

Meridian Energy and Mighty Power were the largest IPOs in 2013 and also New Zealand's biggest ever.



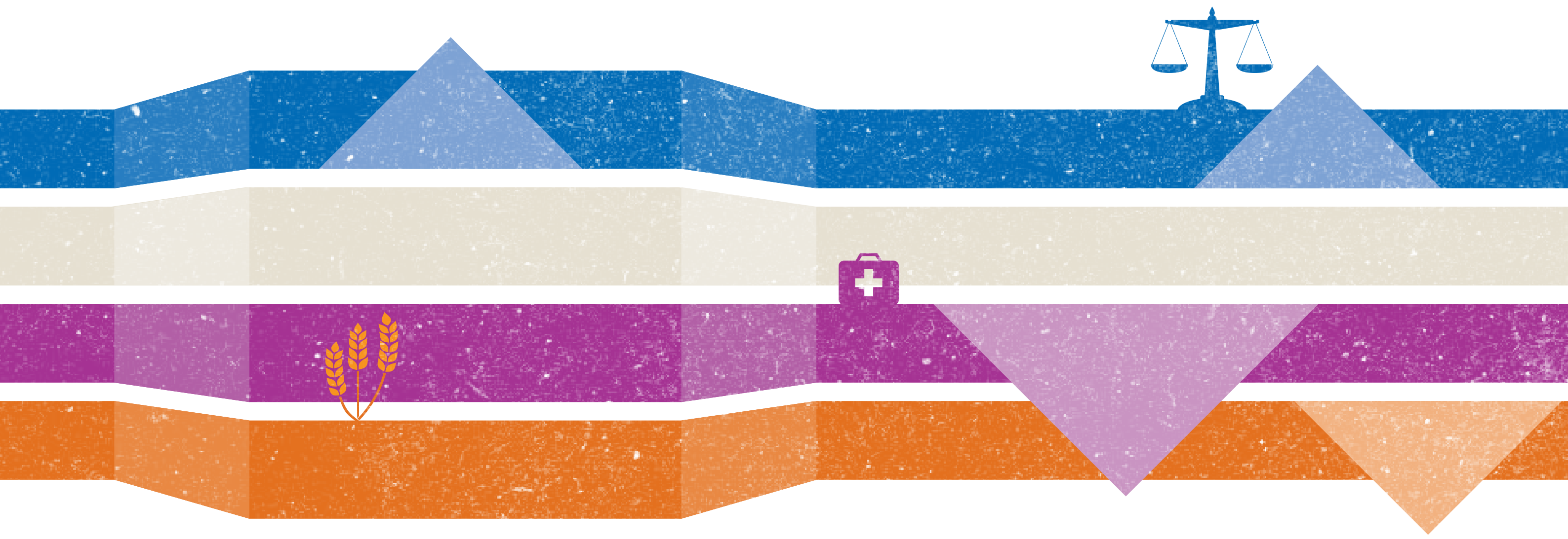
Listing multiples

One of the most successful listings was that of Virtus Health Limited (Virtus Health). It was the first of the large listings and the first big private equity exit via an IPO for several years.

IPO multiples of the ten largest IPOs

Company	Listing date	Industry	Offer Size (million)	EBITDA (million)	EV/ Forecast EBITDA multiple
Mighty River Power Ltd	10/05/13	Utilities	NZ$1,715	NZ$498	9.3 *
Meridian Energy Ltd	29/10/13	Utilities	NZ$1,883	NZ$548	9.1 *
Pact Group Holdings Limited	17/12/13	Industrials	A$649	A$202	8.5
Nine Entertainment Co. Holdings Limited	6/12/13	Consumer Discretionary	A$625	A$305	8.2
Cover-More Group Limited	19/12/13	Financials	A$521	A$47	14.8
OzForex Group Limited	11/10/13	Financials	A$439	A$31	14.8
Z Energy Ltd	19/08/13	Energy	NZ$700	NZ$207	8.1 *
Dick Smith Holdings Limited	4/12/13	Consumer Discretionary	A$345	A$72	7.4
Veda Group Limited	5/12/13	Industrials	A$341	A$125	10.7
Virtus Health Limited	11/06/13	Healthcare	A$339	A$63	9.4

* Calculated based on EBITDA excluding impairment losses



Listing multiples

Virtus Health

Virtus Health's primary activity is the supply of assisted reproductive services, which accounts for over 77% of its revenue. This is an area of the health industry that is forecasting strong growth, as Australia's female population rises and the trend towards older women having children continues.

Virtus Health was formed by Quadrant Private Equity through its investment in IVF Australia in 2008 and subsequent bolt-on acquisitions. At 31 December 2013, the Company was trading at more than 50% above the IPO share price, although it has come back a little at the date of this update.

From the top 10 IPOs, the two companies with the highest forecast multiples were OzForex Group Limited (OzForex Group) and Cover-More Group Limited (Cover-More Group). These companies are both in the growing financial services sector, which generally trades at higher multiples.

OzForex Group

OzForex Group provides online international payment services. It has significant growth potential with geographic expansion and the roll out of its services into the US market sighted as reasons behind its offering. Following OzForex Group's IPO the company successfully applied for US money transmitter licenses for 29 US States and at 31 December 2013 was trading at a 44% premium to its offer price.

Cover-More Group

Cover-More Group offers travel and medical insurance to customers throughout Australasia. Private Equity firm Crescent Capital held an approximate 83% stake in the company prior to the IPO. As at 31 December 2013, the shares were trading at a slight discount to its offer price.

Dick Smith Holdings Limited

Of the top 10 largest IPOs in 2013, Dick Smith Holdings Limited (Dick Smith) listed at the lowest forecast EBITDA multiple (7.4 times). Nonetheless, the implied equity value of Dick Smith on listing of $520 million represents a significant valuation turnaround, as the PE firm, Anchorage, purchased the company from Woolworths in November 2012 for a final consideration of just $94 million.

The management team implemented strategic, customer and operational programs to substantially improve financial results within the year. As at 31 December 2013, Dick Smith was trading at a slight discount (5%) to its listing price, possibility reflecting investor concerns as to the potential to further grow earnings in a highly competitive and low margin retail environment.

Will you get maximum value for your business?

Have you been thinking about the best strategy to improve the value of your business? Most people seek advice on how to maximise the value of their business when they are actually ready to sell or about to undertake an acquisition. At these stages it is often too late to implement the strategies needed to get the most out of the transaction.

Are you pursuing a strategy that will increase the value of your business?

Take our traffic light assessment

		Green light Yes	Orange light Maybe	Red light No
1	Are you pursing a growth strategy?	○	○	○
2	Is your business scaleable?	○	○	○
3	Have you considered whether you could gain significant competitive advantages from an acquisition?	○	○	○
4	Do you have secure funding in place to enable you to meet your strategic plans?	○	○	○
5	Do you have quality financial and management reporting systems that enable timely and reliable management decisions and that would meet the due diligence requirements of a sophisticated buyer or investor?	○	○	○
6	Do you prepare reliable profit and cash flow forecasts?	○	○	○
7	Are you optimising your working capital management?	○	○	○
8	Do you have a strong management team?	○	○	○
9	Does your business plan include a succession plan or exit strategy?	○	○	○
10	Are you already building relationships with the natural buyers of your business?	○	○	○

If you answered no or unsure to any of the above, please call one of your Grant Thornton Partners to discuss.

Contact Grant Thornton

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