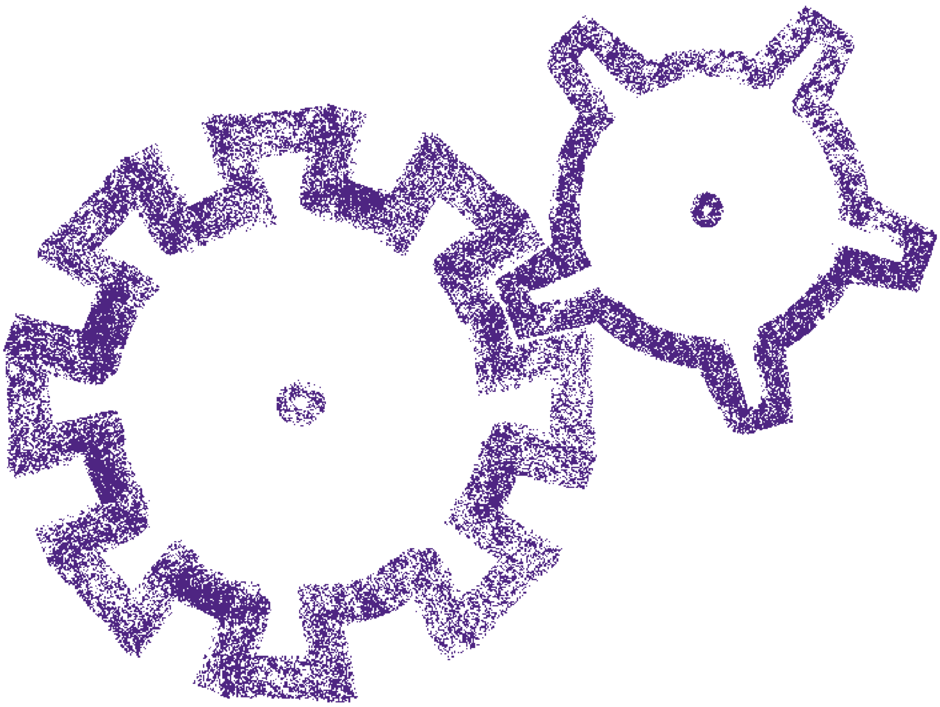
Grant Thornton

Dealtracker

Providing market insights
2011



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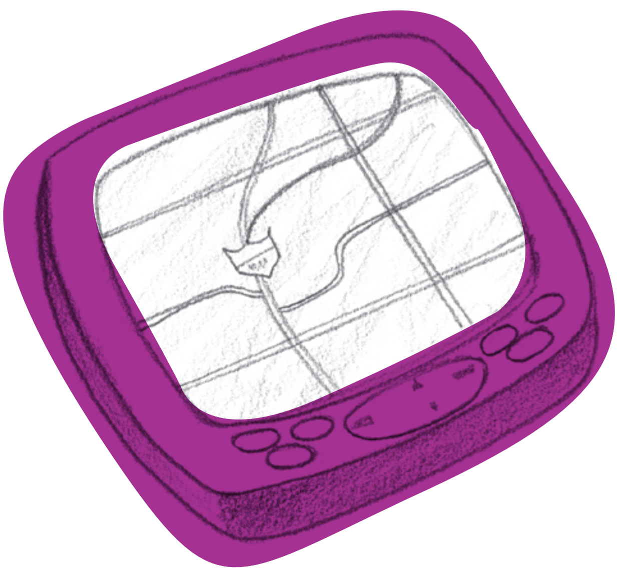


Foreword

Welcome to the 1st edition of Dealtracker, our analysis of the Australian mergers and acquisition (M&A) and equity markets. This first edition covers deals during the 18 month period from 1 January 2010 to 30 June 2011.

We have considered transactions of all sizes during this period where the target company was resident in Australia and the acquirer gained control of the company. Hereafter, Dealtracker will be published on an annual basis at the end of each financial year.

For the 18 month period to 30 June 2011, a total of 1,718 transactions were announced or completed.

We have observed that whilst deals are still being completed, they are transacting at a noticeably slower pace than they were a few years ago. Buyers are more cautious and are spending more time on due diligence to ensure that they undertake only strategic acquisitions that add value.

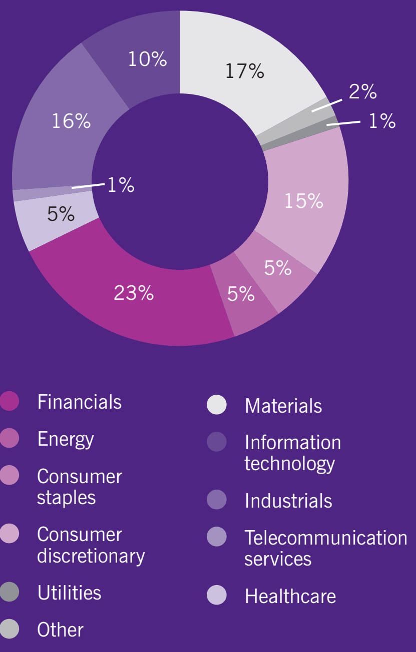
Funding has also been a significant restraint on mergers and acquisition activity, with lenders implementing more stringent lending criteria and demanding higher risk margins. Private Equity (PE) firms are also being careful not to over-leverage new investments, having learned from the challenges of the recent financial downturn.

Despite difficult market conditions, valuation multiples achieved on transactions in the last 18 months have been surprisingly high.

The majority of targets were small and medium sized entities. We feel this is both descriptive of the overall corporate landscape in Australia, with the demographics skewed towards small and mid-market companies. There is also an ongoing generation shift, whereby family owned companies are turning to the transaction market as a part of their succession planning.

We also noted that international investors are offering higher valuation multiples for their investments. We expect the level of overseas investment to continue to increase, as improvements in technology make it easier for businesses to operate on a global basis. Furthermore, overseas companies with limited growth opportunities in their local markets are seeking to acquire businesses in higher growth regions, such as Australia.

Exhibit 1: Deals by sector



Growth in M&A activity in Australia is expected as family owned companies look to exit their business and overseas buyers seek to grow by acquiring companies in Australia.

Corporate Mergers & Acquisitions (M&A) dominates

The past 18 months has been clearly dominated by the corporates, with 92% of acquirers being classified as Corporate M&A deals and 8% as PE deals.

The quarterly development in deal activity was consistent with a normal trend of increasing activity in the last quarter before the end of each financial year.

We noticed a slight decrease in M&A activity in the latest quarter ended 30 June 2011 (279 deals) as compared with the quarter ended 30 June 2010 (292 deals).

We observed increased activity in PE deals in the latest quarter ended 30 June 2011, as compared with the quarter ended 30 June 2010. We expect this recent trend to continue as many PE firms raised funds before the global financial crisis and have not yet invested that capital.

Exhibit 2: Dealmakers (1,718 transactions)

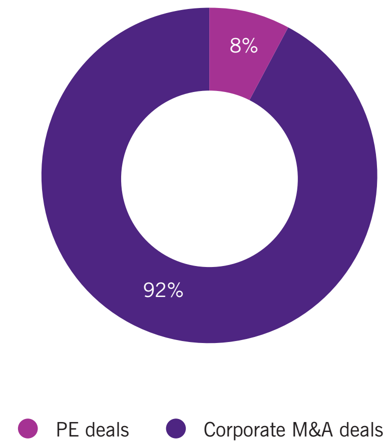
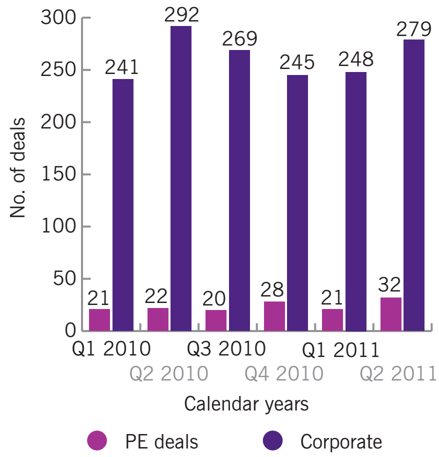


Exhibit 3: Deals by quarter (1,718 transactions)



We expect the recent trend of increasing PE deals to continue, as many PE firms raised funds before the global financial crisis and have not yet invested that capital. Many funds are under time pressure to get funds invested.

We are also expecting significant sell side activity by private equity, as funds look to exit portfolio investments held through the global financial crisis.

Transaction sizes

Small and medium sized target businesses dominated the transaction market over the past 18 months with more than half of the deals occurring in the transaction size range of less than $100 million.

Exhibit 4: Number of deals per transaction size range (1,718 transactions)

Transaction size range	Number of deals	% of total
Greater than $1 billion	21	1%
$500 - $999.9 million	16	1%
$100 - $499.9 million	107	6%
Less than $100 million	947	55%
Undisclosed	627	37%
Total	1,718	100%

Small and Medium Enterprises (SMEs) dominated the market over the past 18 months with more than half of the deals occurring in the transaction size ranges of less than $100 million.

Difficult funding conditions as a result of the global financial crisis may have hampered M&A deals at the larger end of the scale.

Exhibit 5: Number of deals per transaction size range with available valuation multiples (197 deals)

Transaction size range	Number of deals	Number of deals with available valuation multiples	% of total deals with valuation multiples in this category
Greater than $1 billion	21	21	100%
$500 - $999.9 million	16	16	100%
$100 - $499.9 million	107	49	46%
Less than $100 million	947	111	12%
Total	1,091	197	

The data in this report was compiled from several sources including, Standard & Poor's Capital IQ, Mergermarket, IBISWorld, transaction surveys, publicly available documents and press releases.

We were able to source multiples for all of the deals greater than $500 million in size and for nearly half the deals in the size range from $100 million to $499.9 million.

As expected, we have been able to source less information on deals with a transaction size of less than $100 million.

Valuation multiples by target revenue size

As expected, larger target businesses achieved higher valuation multiples than smaller businesses. The valuation multiples observed on some small company transactions were surprisingly high, indicating that high quality, well managed SMEs have been able to attracted good prices, even in relatively difficult market conditions.

Exhibit 6: Distribution of deals with valuation multiples (197 deals)

Revenue range	Number of deals	Median EV/revenue (EV - Enterprise Values)	Median EV to EBITDA multiples	% of total
Less than $20 million	43	1.7	6.1	22%
Between $20 million to $50 million	37	1.2	6.5	19%
Between $50 million to $100 million	42	1.5	7.9	21%
Between $100 million to $200 million	23	0.8	7.5	12%
Between $200 million to $500 million	23	0.6	8.7	12%
Over $500 million	29	1.1	9.8	15%
Total	197			

Businesses are often valued on a multiple of Earnings Before Interest Tax Depreciation and Amortisation (EBITDA). EBITDA is typically used as a measure of earnings for valuation purposes because it reflects the financial performance of the business prior to 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).

The multiples included in the above table are based on the company's most recent historical financial statements prior to the acquisition.

As expected, larger businesses achieved higher EBITDA multiples than smaller businesses. This is because larger businesses typically have a more stable and consistent earnings base as compared to smaller businesses.

The median revenue and EBITDA multiples observed on the business with less than $50 million in revenue are not representative of the multiples that we would typically expect businesses of this size to achieve. We consider the high multiples to be attributable to:

- The transactions that we sourced were influenced by smaller transactions in the financial services industry, where high multiples have been achieved even for small business.
- Some acquirers were basing their valuations on improved financial prospects as opposed to a lower recent historical performance.

However, this does show that high quality, small businesses with strong growth prospects can attract premium multiples.

Valuation multiples by target sector

High valuation multiples were observed in healthcare and consumer sectors.

Exhibit 7: Transactions and valuation multiples per target sector (197 deals)

Target sector	Number of deals	Median EV (A$million)	Median target revenue (A$million)	Median target EBITDA (A$million)	Median EV/ revenue (A$million)	Median EV/ EBITDA
Consumer discretionary	26	85	94	17	1.2	8.9
Consumer staples	4	40	288	12	0.3	8.5
Energy	13	39	26	9	2.3	6.4
Financials	20	107	79	23	1.6	7.4
Healthcare	13	95	40	6	1.9	10.9
Industrials	67	78	83	23	0.8	7.9
Information technology	13	23	47	7	0.6	5.6
Materials	30	168	82	9	1.8	7.5
Telecommunications	5	60	62	19	1.9	5.7
Utilities	6	71	239	9	0.7	7.9
Total	197					

The largest median multiple was in the Healthcare sector. We observed that more than half of the transactions in Healthcare were by foreign buyers, with two PE acquirers in this space.

High multiples were achieved in the Consumer Discretionary segment, with nearly 80% of the acquirers in the Consumer Discretionary deals being large corporate Australian buyers. The highest multiple was paid for NSW lotteries and some other gaming companies also achieved high multiples. Some key brand name retail acquisitions included Rays Outdoors, Mitre 10 (50%) and Jenny Craig.

Domestic vs. international valuation multiples

An increasing number of sellers now expect their businesses to be marketed to overseas buyers.

Exhibit 8: Multiples - Domestic vs. International

Buyer	Number of deals	Total EV (A$million)	Median EV	Median target revenue (A$million)	Median target EBITDA (A$million)	Median EV/ revenue multiple	Median EV/ EBITDA multiple
Domestic	134	57,770	54	65	9	1.1	7.4
Cross border inbound	63	52,899	171	128	26	1.3	8.9
Total	197						

Of the total 197 deals with valuation data, 134 involved domestic acquirers while 63 targets were acquired by buyers outside Australia. Over 50% of these foreign buyers were from the USA, with UK and Asian buyers representing approximately 20% each.

Foreign buyers were interested in larger targets and willing to pay more than their domestic counterparts. The lower cost of debt available to overseas buyers is expected to have contributed to their ability to purchase at higher multiples.

We expect the level of interest from overseas acquirers to continue to rise, as improvements in technology make it easier for businesses to operate on a global basis. Furthermore, companies with limited growth opportunities in their local markets are seeking to acquire businesses in higher growth regions, such as Australia.

Our experience is that an increasing number of sellers now expect their businesses to be marketed to overseas buyers as it increases the pool of potential buyers and therefore provides an opportunity to attract higher valuation multiples.

Some of the largest targets by foreign acquirers were Healthscope Ltd (Carlyle Asia Partners III), AWB Limited (Agrium Inc), Brockman Resources Limited (Wah Nam Holdings Ltd), Sigma Pharmaceuticals Ltd (Aspen Pharmacare Holdings Ltd).

Corporate M&A vs. PE valuation multiples

Exhibit 9: Multiples - Corporate M&A vs. PE

Type of deal	Number of deals	Total target revenue (A$million)	Median target revenue (A$million)	Total target EBITDA (A$million)	Median target EBITDA	Median EV/ revenue multiple	Median EV/ EBITDA multiple
Corporate M&A deals	171	57,921	65	7,175	11	1.1	7.6
PE deals	26	10,115	125	1,868	34	1.5	6.8
Total	197						

PE acquirers were mainly interested in the Industrials, Healthcare and Consumer Discretionary sectors.

Similar to foreign buyers, PE acquirers were interested in larger targets, however on average paid lower valuation multiples. This is not unexpected as corporate buyers can often afford to pay higher multiples as a result of synergy benefits they expect from the acquisition.

Nearly one third of the 26 PE deals were by US based PE firms.

We observed a number of PE transactions in the education space, including acquisitions of The Study Group and Careers Australia Group Ltd. PE also took an interest in the Consumer Discretionary space with the acquisition of The Boost Group and Lorna Jane.

Corporate buyers can often afford to pay higher multiples as a result of expected synergy benefits.

Corporate M&A deals valuation multiples

Exhibit 10: Distribution of Corporate M&A deals with multiples

Revenue range	Number of deals	Median EV/ revenue multiple	Median EV/ EBITDA multiple	% of total
Greater than $50 million	37	2.0	8.6	24%
Between $50 million to $100 million	42	2.9	9.0	27%
Between $100 million to $200 million	23	1.5	8.8	15%
Between $200 million to $500 million	23	1.3	9.6	15%
Over $500 million	29	1.9	11.4	19%
Total	154			

Exhibit 11: Top 10 Corporate deals (by deal value) - announced

Buyer	Target	Target sector	Deal value ($Amillion)
AMP Ltd	AXA Asia Pacific Holdings Ltd	Financials	13,291
Newcrest Mining Ltd	Lihir Gold Ltd	Industrials	9,117
STT Communications Ltd	eircom Holdings Ltd	Financials	7,544
Barrick Gold Corporation	Equinox Holdings Ltd	Materials	7,325
West Australian Newspapers Holding Ltd	Seven Media Group Pty Ltd	Consumer Discretionary	4,148
Royal Dutch Shell plc; PetroChina Co. Ltd	Arrow Energy Ltd	Energy	3,943
Rio Tinto Ltd	Riversdale Mining Ltd	Materials	3,657
Goldcorp Inc	Andean Resources Ltd	Materials	3,651
Banpu Minerals (Singapore) Pte.Ltd	Centennial Coal Co. Ltd	Energy	2,272
Seven Network Ltd	WesTrac Holdings Pty Ltd	Industrials	2,001

PE deals valuation multiples

Exhibit 12: Distribution of PE deals with multiples

Revenue range	Number of deals	Median EV/revenue	Median EV/EBITDA	% of total
Greater than $50 million	6	1.2	5.4	23%
Between $50 million to $100 million	6	2.2	7.4	23%
Between $100 million to $200 million	3	0.8	7.2	12%
Between $200 million to $500 million	5	1.9	11.7	19%
Over $500 million	6	1.5	8.4	23%
Total	26			

Exhibit 13: Top PE deals (by deal value) - announced

Buyer	Target	Target sector	Deal value ($Amillion)
TPG Capital	Redbank Energy Ltd	Utilities	3,056
CPP Investment Board	Intoll Group	Industrials	3,438
TPG Capital; The Carlyle Group	Healthscope Ltd	Healthcare	2,649
Brookfield Infrastructure Partners	Prime Infrastructure Group (60% Stake)	Industrials	2,085
Citi Infrastructure Investors	DP World Australia Ltd (75% Stake)	Industrials	1,363
Pacific Equity Partners	Energy Developments Ltd	Utilities	762
Providence Equity Partners	Study Group Pty Ltd	Industrials	660
CPP Investment Board	Northland Shopping Centre	Financials	455
Archer Capital Pty Ltd	Quick Service Restaurants Inc	Consumer Discretionary	450
Champ III Fund	ATF Hire Group	Industrials	250

Share price performance of listed companies

Exhibit 14: EBITDA multiples observed on the Australian Securities Exchange (ASX)

We have derived median EV/EBITDA earnings multiples for the main ASX industry sectors over the last five financial years.

Industry	Median EV/EBITDA 30 June 2007	Median EV/EBITDA 30 June 2008	Median EV/EBITDA 30 June 2009	Median EV/EBITDA 30 June 2010	Median EV/EBITDA 30 June 2011
Consumer discretionary	11.9	6.9	6.6	7.5	7.4
Consumer staples	12.1	9.9	8.2	8.3	8.2
Energy	12.0	10.7	8.0	6.4	9.3
Financials	17.2	11.1	11.8	9.8	9.8
Healthcare	13.3	9.3	7.8	7.0	7.0
Industrials	10.8	6.9	5.7	6.7	7.4
Information technology	12.0	6.9	4.8	7.3	5.9
Materials	9.9	8.1	7.6	8.5	7.4
Telecommunication services	10.7	5.7	3.9	6.2	5.8
Utilities	13.8	12.4	11.4	9.5	9.4
Overall	12.5	8.4	7.1	7.6	7.8

Our analysis indicates that all sectors on the ASX are still trading well below the levels that they were trading during the bull market conditions of 2007. Whilst multiples have improved since the peak of the Global Financial Crisis, the improvement has been relatively modest.

The two sectors expected to experience the strongest growth are utilities and mining.

Sectors with the highest valuation multiples

The sectors that have performed consistently above average include Finance and Utilities. The higher multiples for these sectors are supported by strong projected growth rates for these sectors.

Expectations of an increase in funds under management along with stable returns on financial markets is forecast to deliver solid revenue growth for the Finance sector. We expect that in coming years we will see the resurrection of securitisation vehicles as mortgage originators look to free up their balance sheets.

According to IBISWorld, the Utilities sector is forecasting to grow by 6.9% per annum over the next four years. Industry growth will be driven by firmer demand and higher electricity prices as a result of the introduction of carbon reduction measures.

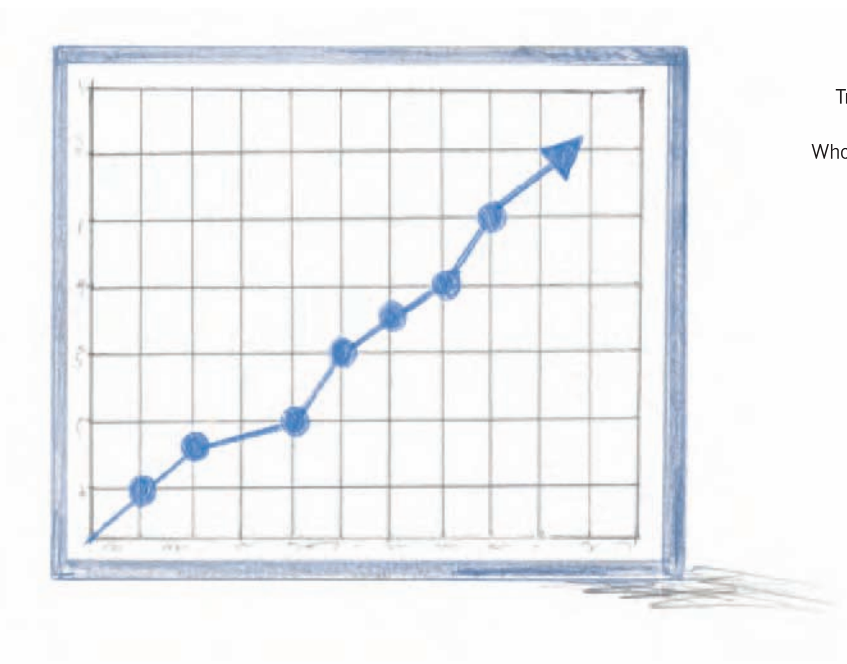
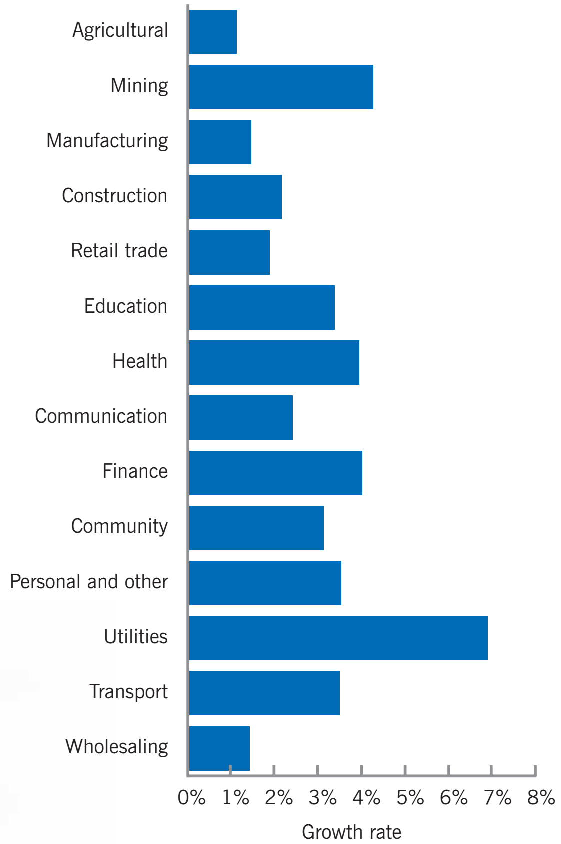


Exhibit 15: Sectors with highest valuation multiples



Sectors with the lowest valuation multiples

The sectors that have performed consistently lower than average include:

- Telecommunications - While the internet service provider industry is set to expand by 10.5% per annum on the back of the Government's National Broadband Network rollout, the wired telecommunication carrier industry will remain in a decline phase as consumers switch from wired services to wireless services (revenue is forecast to contract by 5% per annum).
- Information Technology (IT) - IT multiples are among the lowest, largely due to customers deferring non-core expenditure during the global financial crisis.
- Consumer Discretionary – The earnings of consumer discretionary companies are sensitive to general economic confidence, which drives the level of consumer spending. Competition for companies in this sector is also intensifying as consumers take advantage of the high Australian dollar to shop online.

- Industrials – The Industrials sector comprises a broad range of companies from construction, manufacturing, and transport to commercial services. Australia's manufacturing sector is placed for moderate growth of 1.6% per annum over the coming years. Bucking this trend is the iron and steel manufacturing industry which is predicted to grow by 4.7% while benefiting from strong investment in the resource sector and government infrastructure projects. The mining and construction machinery manufacturing industry is also forecast to achieve strong revenue growth as miners expand capacity to meet growing international demand. Australia's sugar manufacturing industry is forecast to recover from an extremely low base as rising incomes in developing nations help to offset the adverse effect on the industry of increased health awareness. The fibre and wire manufacturing industry will be amongst the major beneficiaries of the Government's National Broadband Network with forecast revenue growth of 7.7% per annum. The construction sector is expected to display subdued cyclical growth of 2.3% per annum over the coming years. Reconstruction of flood damaged buildings in Queensland and northern Victoria will support improved performance while the withdrawal of federal stimulus funding will limit growth.

Initial Public Offering (IPO) activity in Australia

Introduction

Over the 18 months to 30 June 2011, a total of 96 new companies were listed on the ASX. The Industrials sector was the clear standout, accounting for approximately 52% of the total value of all IPOs. The bulk of the weight came from the listing of QR National (approximately 50% of total IPO value). The financials sector was also robust, accounting for 26% of total IPO value, though the majority of this was attributable to the floating of Westfield Retail Trust. Conversely, all other sectors had very few listings. One reason could be that original owners were reluctant to list their private companies in the current flat market. Activity in the materials sector remained strong, reaffirming investors confidence in the sector. This was primarily driven by IPO activity in the diversified metals and mining industry.

IPO trend

In terms of capital raisings, 2011 saw the return of IPOs after a quiet past few years. Conversely, secondary capital raisings were significantly lower than previous years. This is as expected. The past few years saw many ASX listed companies deleverage their balance sheets after the financial crisis exposed weaknesses in many company capital structures. Company balance sheets are now a lot healthier, diminishing the need for secondary capital raisings.

Exhibit 16: IPO value by sector for 18 months to 30 June 2011

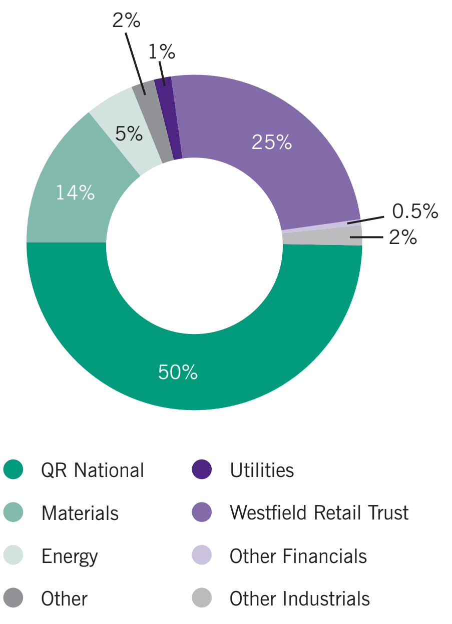
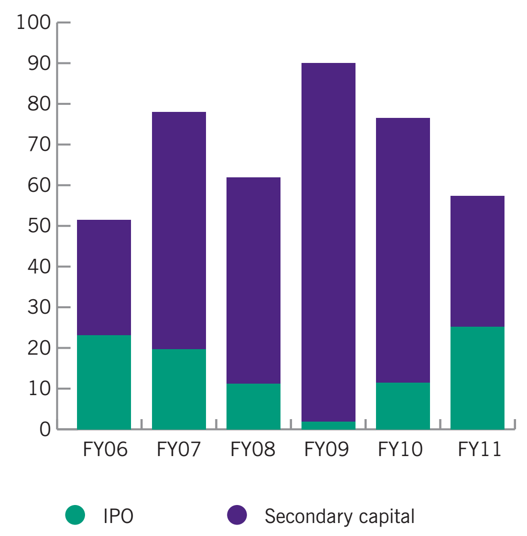


Exhibit 17: Trend in IPO and secondary capital raisings



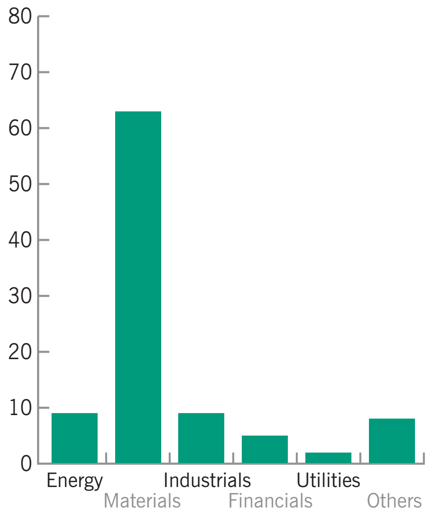
Two largest IPOs

2010 saw business headlines dominated by the float of both Australia's largest coal transporter, QR National (QRN), and Westfield's spinoff, Westfield Retail Trust (WRT), accounting for $6.1 billion or 75% of all funds raised during the period.

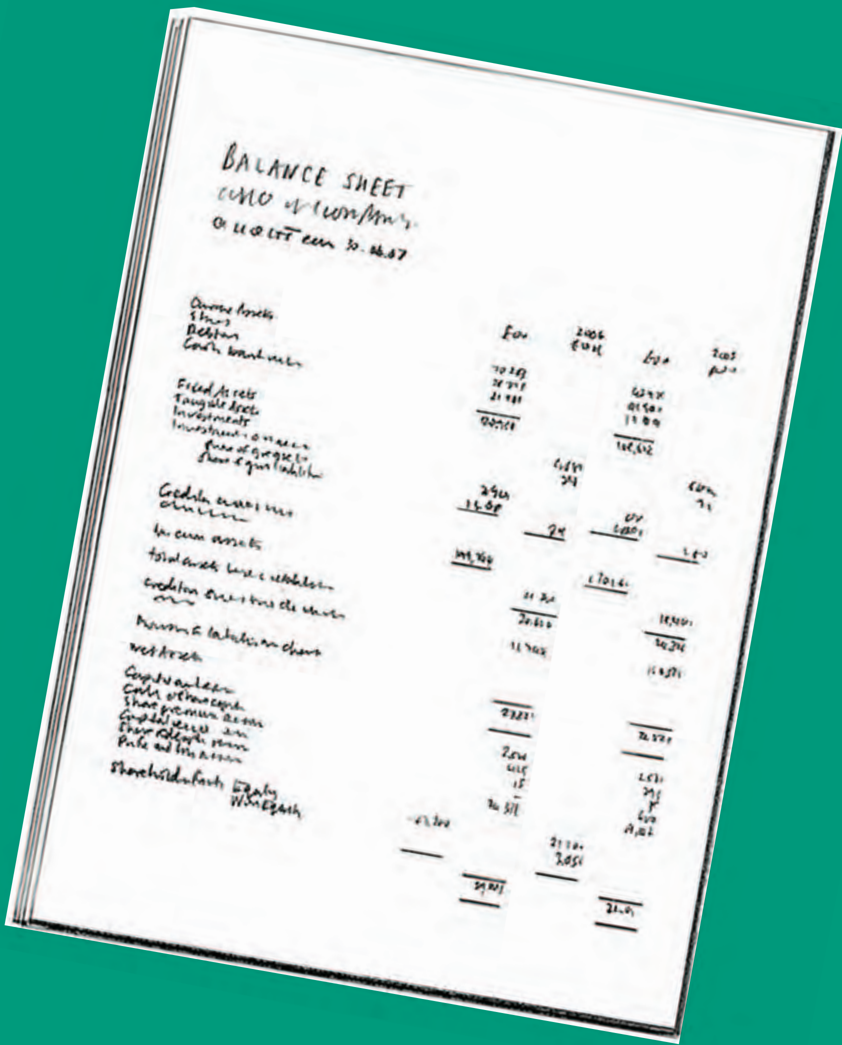
QRN is the largest rail freight haulage operator in Australia, operating in key freight sectors and supply chains across Australia. The company rewarded its investors with capital growth of 32.5% since floating on the ASX.

WRT is Australia's largest domestic retail focused real estate investment trust. Its assets have a current book value of approximately $12 billion. The trust experienced a turbulent start to its trading life. First day trading in WRT was strong with almost 102 million shares changing hands, 3.3% of shares on issue.

Exhibit 18: Number of IPOs by sector



Company	Date listed	Industry	Amount raised (A$million)	IPO price	Price at 30/06/2011	Price change
QR National	40,459	Industrials	4,052	2.55	3.38	32.5%
Westfield Retail Trust	40,485	Financial	2,053	2.75	2.71	-1.5%



IPOs by size

From observing Exhibit 19, it can be seen that the majority of IPO activity occurred in the range of $0 and $50 million deals. However as a total, they did not come close to the total value of the two largest IPOs. Noticeably, these two IPOs were the only offerings to be made in excess of $1 billion.

Exhibit 19: IPOs by size

Number of IPO'S	Number of IPO's	Total raised (A$million)	Percentage of total value
$0<$10 million	55	264	3
$10 million to <$50 million	30	571	7
$50 million to <$100 million	6	459	6
$100 million to <$500 million	3	785	10
$500 million to <$1 billion	-	-	-
$1 billion +	2	6,104	75
Total	96	8,183	100

Listing multiples and immediate price returns

The average share price of the companies that listed on the first day of trading was 6.7% higher than their offer price in the IPO.

Exhibit 20: IPO multiples of selected companies

Company	Transaction value ($million)	EV	FY2010 EV/revenue	FY2010 EV/EBITDA
QR National Ltd.	4,051.87	6,722.00	2.32	10.70
Westfield Retail Trust	2,052.58	9,538.96	10.10	(1)
Miclyn Express Offshore Limited	285.00	658.23	4.59	9.30
ERM Power Limited	100.00	377.20	0.90	5.49 (2)
Gerard Lighting Group Limited	85.00	256.06	0.70	7.36
Mastermyne Pty Ltd.	40.00	86.10	0.92	5.20
Corporate Travel Management	20.00	61.65	1.95	10.97
Countplus Limited	20.00	149.42	1.70	8.52
Seymour Whyte Pty Ltd.	19.80	60.75	0.32	3.79
RedHill Education Limited	16.00	22.46	1.30	6.01
AACL Holdings Ltd.	11.00	10.30	0.09	2.97

(1) EBITDA multiple not disclosed. Implied EBIT multiple was 13.73

(2) Based on EBITDAIF

The above table shows the trading multiples of a selected number of IPOs which occurred in the 18 months to 30 June 2011. In selecting companies for our analysis, we excluded those companies with the following criteria:

- Companies floating for less than $5 million.
- Companies within the materials sector.
- Companies without complete publicly available financial data.

Of the total IPOs analysed, EV/EBITDA multiples ranged from 2.97-10.97. On a company-by-company analysis, it can be seen that investors were willing to pay a higher multiple for larger, more matured companies (like QRN and WRT), while the more speculative listings attracted a much lower multiple (AACL and Seymour Whyte).

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