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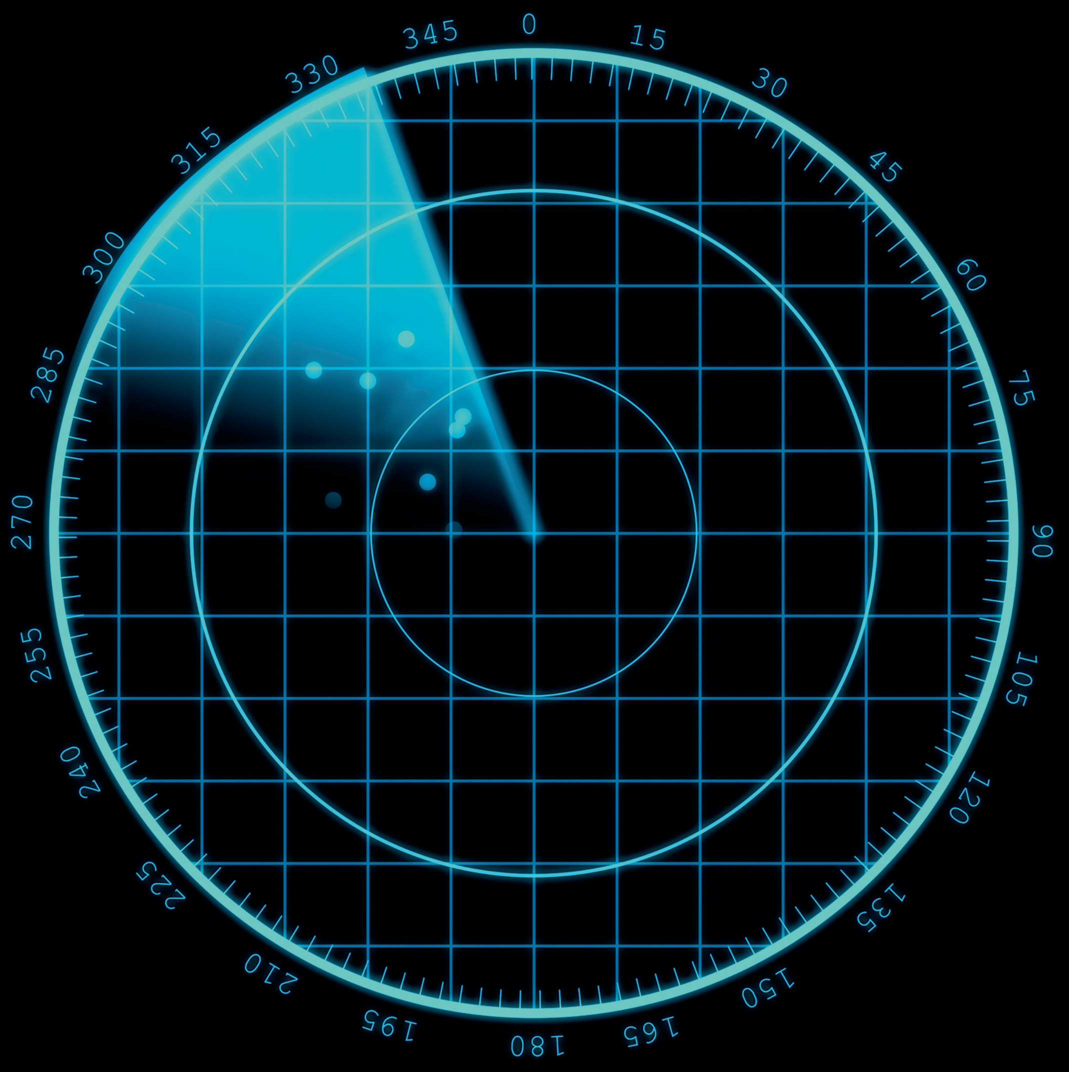


ASX Performance Overview

FY22: A year in review

MAKING AN IMPACT THAT MATTERS since 1845

Find out whether ASX businesses were able to successfully navigate the headwinds during FY22, which industries won and lost, and what to look out for in FY23.

FY22: A year in review

Just as positive signs were emerging in late FY21 following a challenging year navigating COVID-related disruptions, economic recovery was stunted at the beginning of FY22 with ongoing impacts and lockdowns resulting from the Delta variant.

By December 2021, restrictions had eased and demand appeared to be returning. When Omicron hit however, it severely impacted global supply chain networks and forced many public-facing businesses into voluntary lockdowns, this time with minimal Government support.

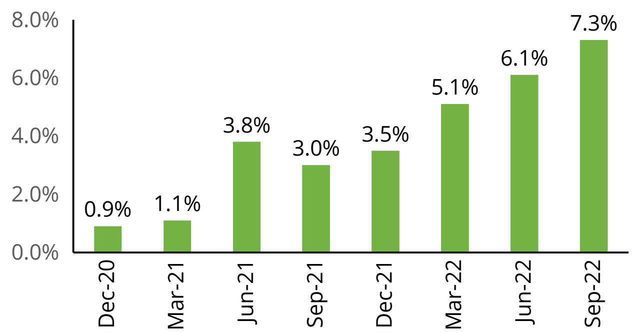
In the background, many sectors were severely impacted by **ongoing labour market challenges** due to prolonged border closures. Further, **unprecedented weather events** hit the East Coast of Australia in Q3 FY22, resulting in further disruption to national logistics networks.

Despite these headwinds, ASX businesses demonstrated robust growth in revenue and operating profits in FY22, with **55% of ASX businesses reporting EBITDA growth**. However, the median ASX market cap had declined by 19% by the end of September 2022, implying performance had been generally below market expectations, compounded by the FY23 market headwinds of continued inflation and rising interest rates.

FY22 S&P/ASX Performance

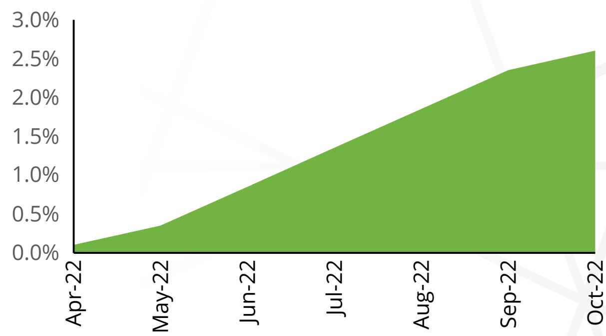
Headline **inflation has been at its highest since the early 1990s**, being largely supply-side driven with global stock shortages and commodity cost increases, fiscal stimulus and Russia's invasion of Ukraine. The RBA began to normalise monetary policies increasing the cash rate by 25 basis points in May, with three increases of 50 basis points each in the following five months.

Quarterly Consumer Price Index (CPI) (%)



Source: ABS Statistics

Cash rate target (%)



Source: RBA Statistics

Whilst some economists say that **inflation may have peaked in July**, other factors will drive uncertainty into the foreseeable future, including the impact of **higher interest rates** on both consumer sentiment and the cost of capital. These factors are evident in current capital markets uncertainty. It appears that ASX businesses will have another volatile year to navigate through FY23.

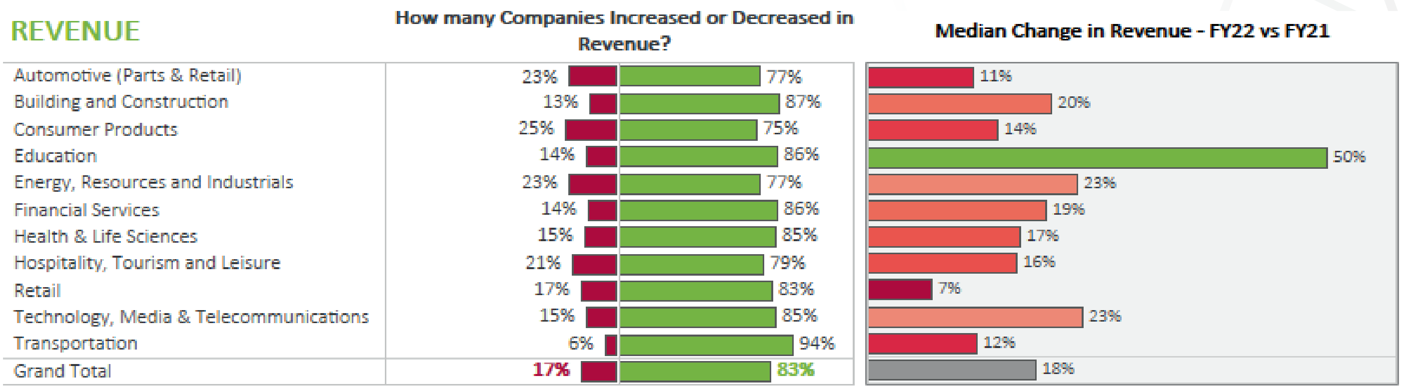
Contact Us: If you would like to discuss this report further, or understand key benchmarks or trends that are impacting your sector, please reach out to our team, set out in the Key Contacts section.

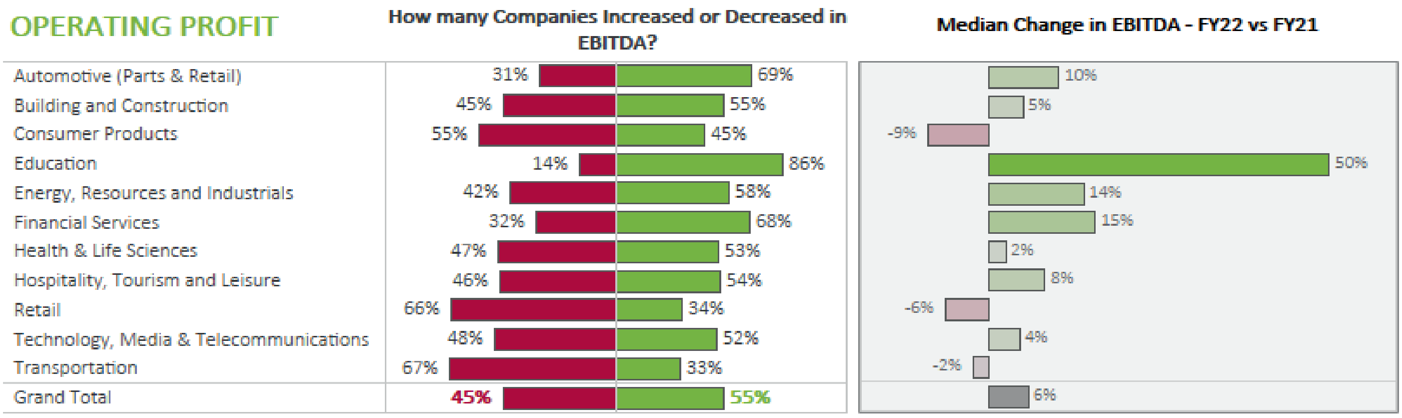
Revenue & Profitability

83% of ASX businesses grew revenue in FY22, a trend that was fairly consistent across all sectors. The largest growth was within the Transportation, Building & Construction, Education and Financial Services sectors. Sectors with the largest declines included Automotive (largely parts), Consumer Products and Hospitality, Tourism & Leisure. With a median revenue growth rate of 18%, many companies experienced top line growth, largely aided by inflationary price growth in H2 FY22.

However, commodity costs and input cost inflation more than offset revenue growth, with only **55% of companies growing EBITDA**, by a median of 6%. A **number of ASX companies were coming off a "bumper" FY21** thanks to JobKeeper and in some cases, COVID fuelled growth (e.g. home improvements).

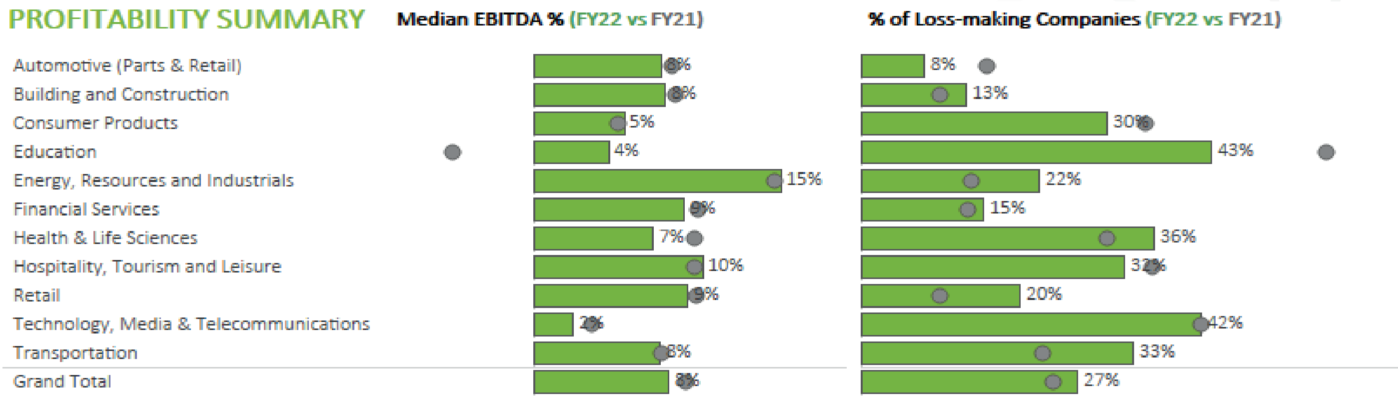
Operating profit performance by industry was more varied, with **Consumer Products & Retail and Transportation experiencing declines in operating profits vs FY21**.





Source: CAPIQ and Deloitte analysis

Supply chain disruptions, labour shortages and external inflationary pressures were key contributors to bottom line margin erosion. Operating profitability (EBITDA % of revenue) of ASX businesses slightly declined from 9% in FY21 to 8% in FY22.



Source: CAPIQ and Deloitte analysis

Debt & Equity

Overall **debt across the ASX increased by $25.8bn in FY22** when compared to FY21, although nearly half of this increase was driven by Financial Services. The increase reflected funding for M&A activity and working capital by traditional banks, who slowly reverted to pre-COVID lending patterns, and by alternative capital providers.

ASX businesses operating in the Energy, Resources and Industrials, Financial Services and Health & Life Sciences' sectors saw significant increases, collectively increasing debt by $24.3bn.

DEBT

	(FY22 vs FY21)			
	How Many Companies Increased or Decreased in Debt? *(excl. AASB16)*		How Did Total Debt Change? *(excl. AASB16)*	Median Change in Debt
Automotive (Parts & Retail)	22%	78%	529	63%
Building and Construction	40%	60%	245	12%
Consumer Products	39%	61%	42	4%
Education	50%	50%	99	48%
Energy, Resources and Industrials	48%	52%	6,857	1%
Financial Services	35%	65%	10,513	9%
Health & Life Sciences	44%	56%	7,229	12%
Hospitality, Tourism and Leisure	48%	52%	-1,996	3%
Retail	38%	63%	3,581	10%
Technology, Media & Telecommunications	47%	53%	483	3%
Transportation	50%	50%	-1,766	0%
Grand Total	**42%**	**58%**	**25,816**	**5%**

Source: CAPIQ and Deloitte analysis

As we look at the market capitalisation, the market lost $157.1bn from the end of the FY22 reporting season compared to last year. Soaring inflationary pressures and the rising cost of debt have softened equity expectations for 70% of ASX companies.

Unsurprisingly, one of the only winners was Energy, Resources and Industrials, with energy prices reaching record highs amid the impact of various macro-economic events.

MARKET CAP

as at 23 Sep 2022

	23 Sep 2022 vs 23 Sep 2021			
	How Many Companies Increased or Decreased in Market Cap?		How Did Total Market Cap Change?	Median Change in MCap
Automotive (Parts & Retail)	85%	15%	-2,296	-16%
Building and Construction	55%	45%	-7,630	-10%
Consumer Products	73%	28%	-3,474	-22%
Education	57%	43%	-2,089	-9%
Energy, Resources and Industrials	54%	46%	30,222	-9%
Financial Services	73%	27%	-56,235	-16%
Health & Life Sciences	87%	13%	-33,153	-29%
Hospitality, Tourism and Leisure	85%	15%	-16,504	-29%
Retail	75%	25%	-35,802	-37%
Technology, Media & Telecommunications	73%	27%	-28,555	-33%
Transportation	67%	33%	-1,649	-6%
Grand Total	**70%**	**30%**	**-157,166**	**-19%**

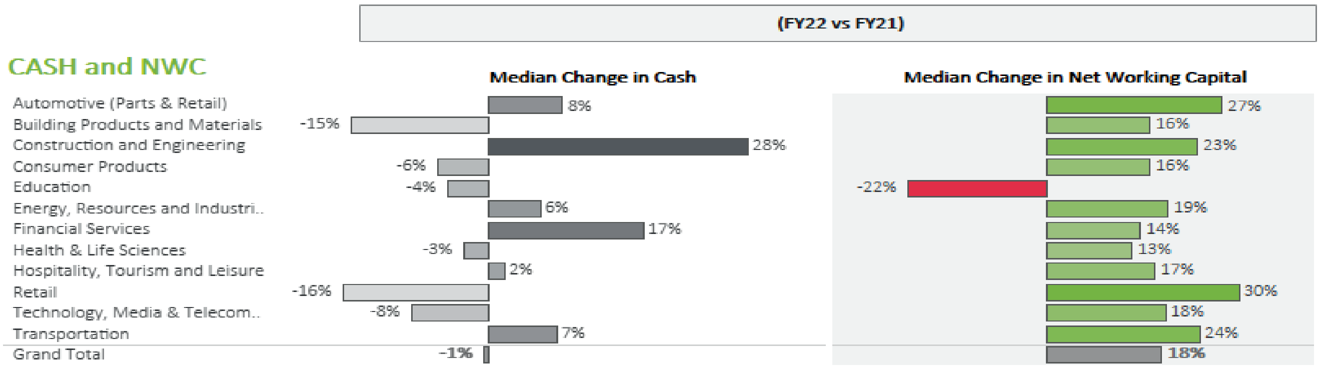
Source: CAPIQ and Deloitte analysis

Outlook: We have seen volatile swings in the global financial markets (equity, debt, foreign currencies and commodities), which has put pressure on the debt and equity funding markets. These trends and other macro-economic factors are indicating likely recessions in some of the major global markets are on the horizon. As such, the operating performance of all businesses will need to be able to withstand the impacts of ongoing supply chain disruptions, rising oil and energy costs, labour shortages, high levels of inflation and the rapidly rising interest rates from central banks around the world. This will be a significant challenge to navigate.

Net Working Capital

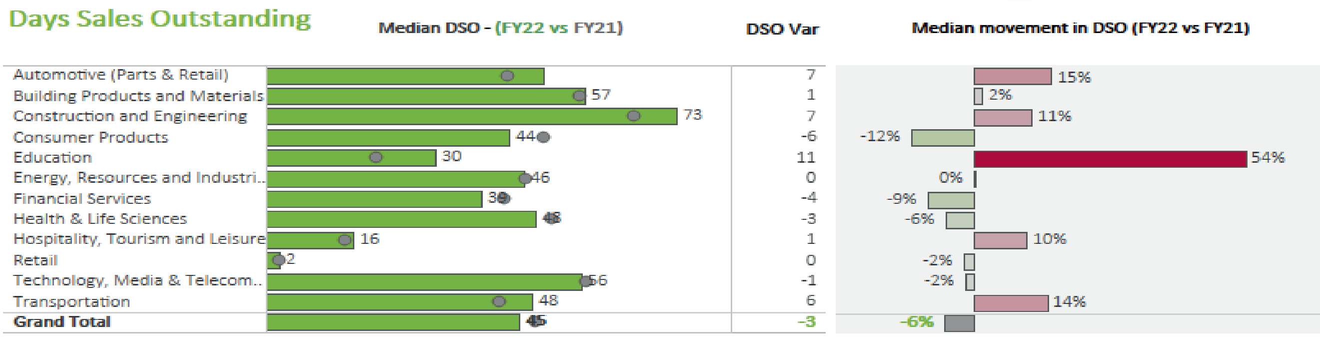
Whilst cash remained consistent in FY22 across ASX businesses, **retailers faced the largest decline in cash**. Median retailer cash levels deteriorated by 16% compared to the prior year, where some retailers held record high cash levels thanks to JobKeeper receipts.

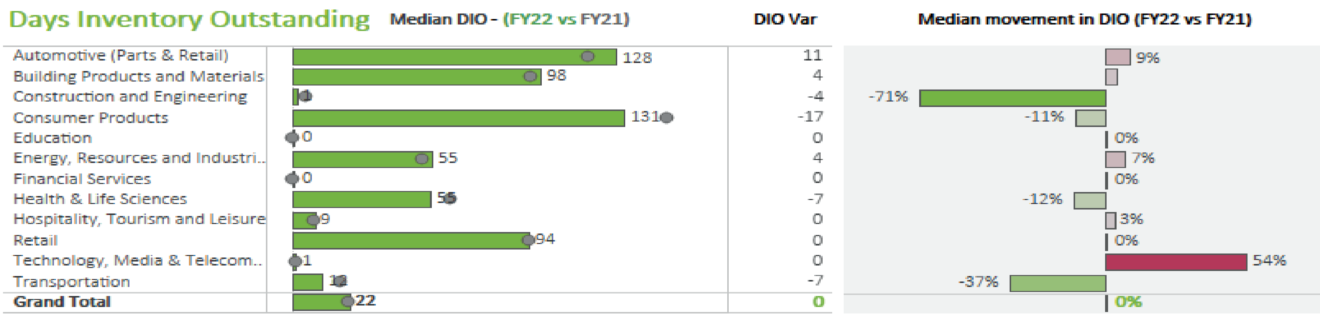
ASX businesses operating in TMT, Consumer Products and Education also had noticeable drops in cash levels.

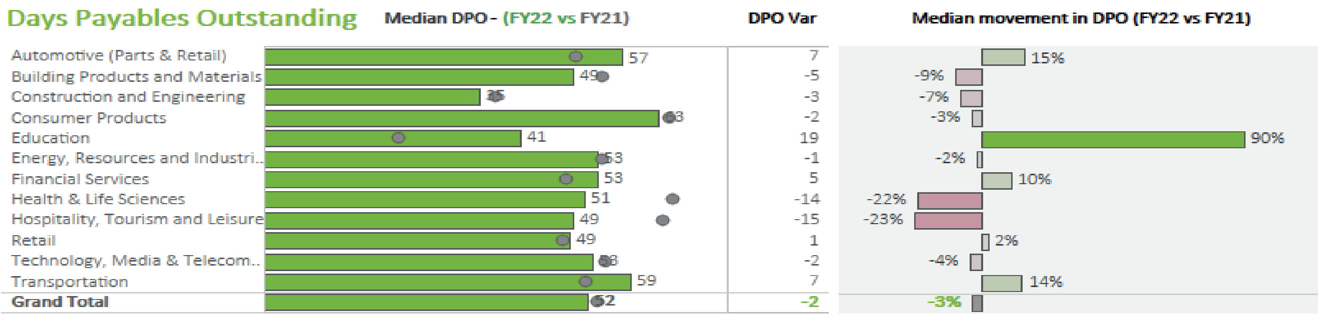


Source: CAPIQ and Deloitte analysis

Despite the various global port and supply delays, DIO generally remained in line with FY21 (which was a higher-than-average year due to increases in inventory holdings), decreasing by c.3 days, with material movements in Consumer Products and Automotive. Payable days (median) for Automotive businesses also increased by 15%.







Source: CAPIQ and Deloitte analysis

FY22 Sector Highlights

Retail

	How many Companies Increased or Decreased in EBITDA? (Decreased)	How many Companies Increased or Decreased in EBITDA? (Increased)	Median EBITDA %	EBITDA $'m - Median Δ	Revenue - Median Δ	Net Debt - Median Δ	Market Cap - Median Δ	# Companies
Apparel Retail	67%	33%	9.4%	(3)	14%	27%	-42%	9
Department Stores	67%	33%	10.3%	(79)	9%	-94%	-22%	3
Electronics and White Goods	71%	29%	1.1%	(10)	1%	-24%	-44%	7
Food Retail	40%	60%	5.9%	33	6%	-252%	-4%	5
Home Improvement Retail	67%	33%	19.5%	(3)	14%	-9%	-27%	6
Specialty Stores	73%	27%	3.9%	(2)	7%	-29%	-37%	11
Grand Total	**66%**	**34%**	**9.2%**	**(3)**	**7%**	**-24%**	**-37%**	**41**

Source: CAPIQ and Deloitte analysis

Despite further COVID disruption (Delta and Omicron), 83% of ASX retailers successfully increased revenue (refer page 4), although this did not translate to EBITDA growth. Only 34% of retailers increased their EBITDA as inflationary pressures, supply chain disruption, labour shortages and the loss of Government stimulus hit bottom line profits.

Internet retailers, one of the key beneficiaries of the shift to online bought on by COVID-19, saw a significant decline in earnings and cash, as consumers returned to stores and COVID fuelled online growth slowed.

Outlook: FY23 may present a challenge for those retailers operating in the discretionary space, with forecast inflationary pressures and rising interest rates likely to impact consumer behaviour. In July 2022 retail turnover rose 1.3% compared to June, the largest rise in four months, however the recent revenue growth, and expectations through to December 2022, is driven more by price increases than volume growth being relatively unfamiliar for retail. Further, as spending patterns revert towards pre-COVID, we'll see proportionately more growth on services rather than goods. Labour shortages will continue to be a challenge and retailers will need to keep focussing on attracting new talent and retaining the talent they have.

Consumer Products

	How many Companies Increased or Decreased in EBITDA? (Decreased)	How many Companies Increased or Decreased in EBITDA? (Increased)	Median EBITDA %	EBITDA $'m - Median Δ	Revenue - Median Δ	Net Debt - Median Δ	Market Cap - Median Δ	# Companies
Brewers, Distillers and Vintners	60%	40%	8.9%	(2)	13%	15%	-21%	5
Consumer Electronics and Household Appliances	50%	50%	10.5%	3	12%	-64%	-33%	4
Foods and Drinks	57%	43%	3.1%	0	24%	3%	-28%	23
Personal Products	25%	75%	7.7%	2	0%	-47%	-29%	4
Specialized Consumer Services	75%	25%	16.1%	(6)	8%	-93%	-10%	4
Grand Total	**55%**	**45%**	**5.4%**	**0**	**14%**	**-17%**	**-22%**	**40**

Source: CAPIQ and Deloitte analysis

Much like in the Retail sector, Consumer Products businesses struggled to convert revenue growth into bottom line profit. Whilst 75% of businesses increased revenue, only 45% increased EBITDA, resulting in a median EBITDA decline of 9%.

Increased consumer demand combined with pandemic-induced supply side challenges triggered global supply chain issues late in the first half of FY22, which resulted in a rise of input costs and supply delays. Commodity cost increases were combated with rapid price increases, however better performers also focused on supply chain efficiency and product portfolio optimisation.

Outlook: While commodity cost increases appear to be slowing in H1 FY23, rising energy costs will put continued cost pressure through 2023 in addition to inflationary pressures. Further price increases will be more challenging to push through Retailers, so focus will be in driving efficiencies, refocusing product portfolios, optimising trade spend & marketing, and critically assess Capex.

FY22 Sector Highlights

Health & Life Sciences

	How many Companies Increased or Decreased in EBITDA?		Median EBITDA %	EBITDA $'m - Median Δ	Revenue - Median Δ	Net Debt - Median Δ	Market Cap - Median Δ	# Companies
Biotechnology	0%	100%	31.5%	29	37%	-135%	-44%	3
Health Care Distributors	40%	60%	7.3%	1	17%	130%	13%	5
Health Care Equipment	44%	56%	-3.7%	1	15%	-27%	-38%	9
Health Care Facilities	80%	20%	7.9%	(16)	3%	-28%	-13%	5
Health Care Services	25%	75%	18.0%	9	23%	-6%	-23%	8
Health Care Supplies	83%	17%	4.3%	(12)	11%	-18%	-38%	6
Health Care Technology	33%	67%	-11.6%	3	46%	4%	-42%	6
Life Sciences Tools and Services	0%	100%	12.1%	2	25%	23%	-26%	3
Pharmaceuticals	75%	25%	-50.7%	(6)	5%	11%	-42%	8
Grand Total	**47%**	**53%**	**7.1%**	**1**	**17%**	**-3%**	**-29%**	**53**

Source: CAPIQ and Deloitte analysis

Whilst Health & Life Science performance was generally positive, with median revenue and EBITDA increasing 17% and 2% respectively, changing COVID-19 policies resulted in different rates of performance across the sub-sectors. However, labour shortage challenges continued to impact all businesses operating in the sector.

Agile players in the COVID-19 response field have fared well, however Pharma businesses have continued to face pressures after initially being in a COVID-19 induced sweet spot with investors, and rising interest rates challenging those with longer paths to ROI.

Outlook: We have seen the markets favour businesses in the Health & Life Sciences sector, due to the perception of being a defensive asset in times of uncertainty, and the industry fundamentals around the ageing population and acuity complexity. However, the increasingly politicised nature of health, interventionalist policies and clear desire for funding reform from Government have introduced additional volatility, that will continue to challenge businesses through FY23.

Construction

	How many Companies Increased or Decreased in EBITDA?		Median EBITDA %	EBITDA $'m - Median Δ	Revenue - Median Δ	Net Debt - Median Δ	Market Cap - Median Δ	# Companies
Building Products	33%	67%	19.6%	12	3%	360%	-30%	3
Construction and Engineering	32%	68%	7.4%	2	25%	4%	15%	19
Construction Materials	60%	40%	10.0%	0	5%	50%	-52%	5
Homebuilding and Furnishings	100%	0%	3.4%	(15)	2%	-15%	-32%	4
Grand Total	**45%**	**55%**	**7.8%**	**1**	**20%**	**31%**	**-10%**	**31**

Source: CAPIQ and Deloitte analysis

The Construction sector was one of the few that was permitted to operate on site largely through-out COVID-19 due to its consideration as an essential activity. However materials shortages, rising costs, and the operating inefficiencies caused by labour shortages and COVID-19 restrictions impacted the sector across the year. Despite this, 55% of ASX Construction businesses managed to improve EBITDA in FY22, equating to median growth of 9%.

Homebuilding was the worst performing segment, with all businesses reporting a decline in EBITDA and a number of privately owned homebuilders experiencing similar challenges. The impacts of cost increases in this sector could be particularly sensitive (suppliers and customers), especially as interest rate rises and CPI increases may soften consumer demand for new housing.

Outlook: With forecast commodity price volatility set to continue and with rising interest rates, one differential we may see in high performing Construction businesses is the ability to pass on material and energy price increases to customers, which may be difficult given the nature of many of the fixed price contracts in place within the sector.

Key Contacts

If you or your clients are experiencing challenges with margin pressures, disruption or capital, or are needing assistance with owners or lenders, please email or call.

We also welcome the opportunity to interactively walk you through our sector performance analytics.

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Want to hear more about the macroeconomic issues raised in this publication from industry leading experts?

Contact our ***Deloitte Access Economics*** team, who's deep economic rigour comes with practical commercial advice to help shape public policy, deliver business insights and inform investment strategy.

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