



The State of the Deal and Deloitte Queensland Index

February 2021 – Quarterly Insight

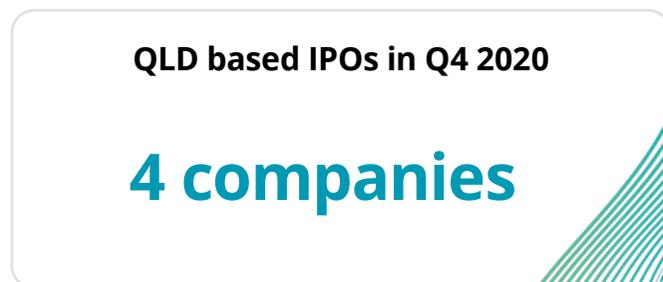
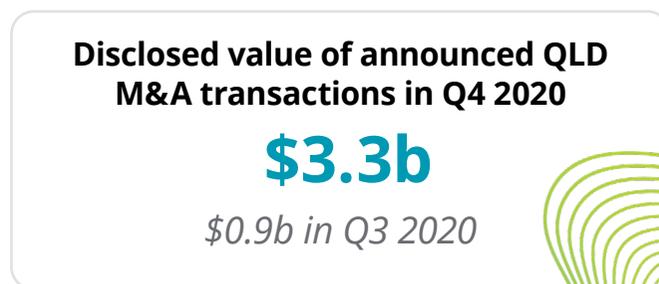
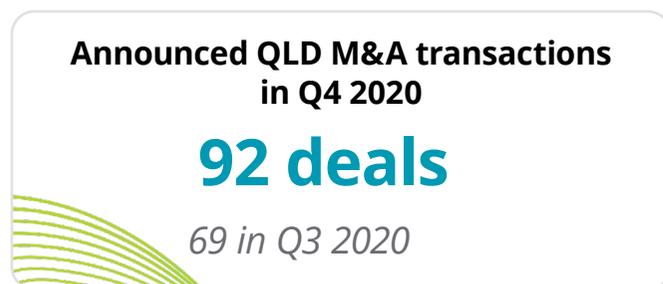
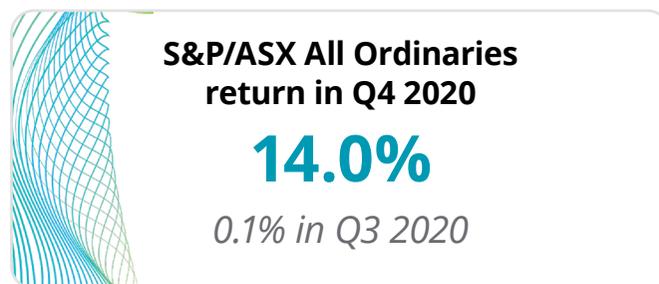
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Executive Summary

A bumper quarter for Queensland M&A to end 2020 - the year of adversity but also unprecedented resilience, collaboration and transformation. Queensland listed companies and M&A activity continued to rebound strongly since the onset of the COVID pandemic with Q4 2020 marking the highest quarterly announced M&A transaction volume since 2016 and the Deloitte Queensland Index returning to pre-COVID levels.



Investment conditions were clearly favourable in Q4 2020 as a result of:

- easing of restrictions, particularly for interstate travel and recreation, and the re-opening of state borders across Australia
- a 'backlog' of M&A transactions which had resumed after being paused during the initial onset of COVID
- increasing consumer confidence of economic recovery given COVID vaccine prospects and stimulus packages announced around the world.

Q4 2020 announced Queensland M&A transactions (92) were the highest since 2016 supported by listed corporations active in the Resources sector, particularly gold, and continued activity in the TMT and Industrials sectors.

Significant Queensland transactions announced in Q4 2020 include:

- Terra Firma Capital Partners' sale of Consolidated Pastoral Company for \$700m+
- Quadrant Private Equity's sale of Qscan Services to Infratil and HRL Morrison & Co for \$700m+
- Foundation Early Learning's proposed acquisition of Think Childcare Group for \$300m+
- Aurelia Metals acquisition of Dargues Gold Mine for c.\$200m.

IPO activity also increased both nationally and in Queensland (4) in Q4 2020 including Queensland's:

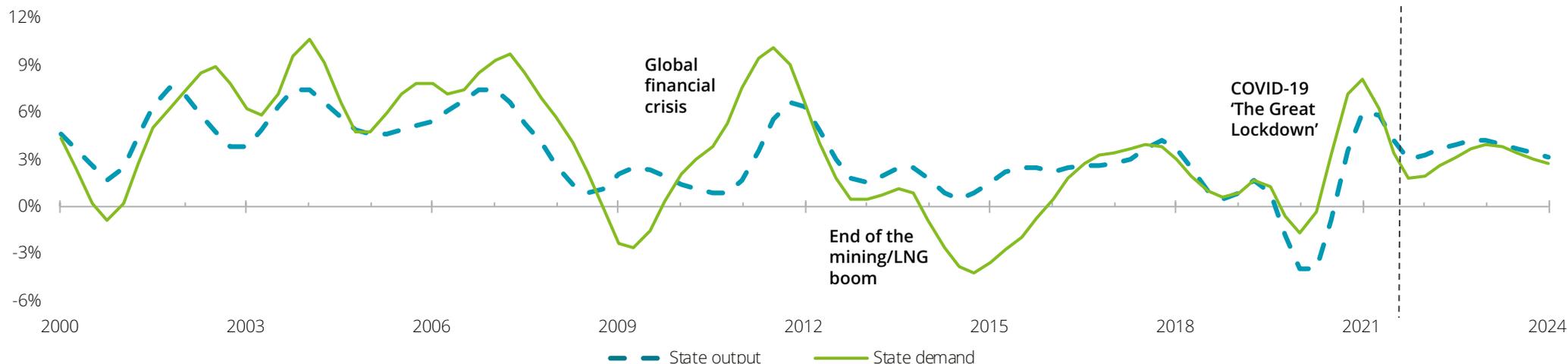
- Dalrymple Bay Infrastructure Ltd
- Duke Exploration Ltd
- Universal Store Holdings Ltd
- Youfoodz Holdings Ltd.

Queensland economic update

Last year saw bushfires, drought, floods and a global pandemic all batter the Queensland economy. Yet, despite all that, Queensland enters 2021 on a relatively strong footing as COVID case numbers remain low and as confidence inches higher.

But things can turn on a dime, as Greater Brisbane's 3-day lockdown has shown. And the recent outbreaks in New South Wales and Victoria were a good reminder of that same risk for Queensland tourism operators. Many businesses were gearing up for high volumes of Sydney tourists over the Christmas break, but border restrictions made that impossible, adding further pain to an already awful year.

Queensland output and demand (change on year earlier)



Source: Deloitte Access Economics, December Quarter 2020.

The lack of domestic tourists particularly hurts the travel-hotspots of the Gold Coast and Cairns. Thankfully, JobKeeper has been a lifeline for many operators and workers in these regions – but come end-March, that support will run dry, and the tourism sector will face an uphill battle to survive while borders remain closed.

Other trade-exposed businesses are also expected to have a challenging year as outbreaks continue around the world, growth in major trading partners (such as Japan and India) remains pressured, and trade tensions continue.

Demand for Queensland's key exports, particularly coal and LNG, have been significantly affected by the global COVID recession. After hitting their respective lows from the beginning of 2020 to August and September, prices for hard coking coal and thermal coal have since recovered. But their recoveries were, ironically, driven by the restrictions on Australian coal imports by Chinese

authorities. So although prices have lifted again, it will take something of a scramble to redirect sales to markets other than China. And at the same time the state's farm exports are also being hit by Chinese bans. More troublingly, finding alternative markets may be more of a challenge for beef, barley and lobsters, although the search is already well underway.

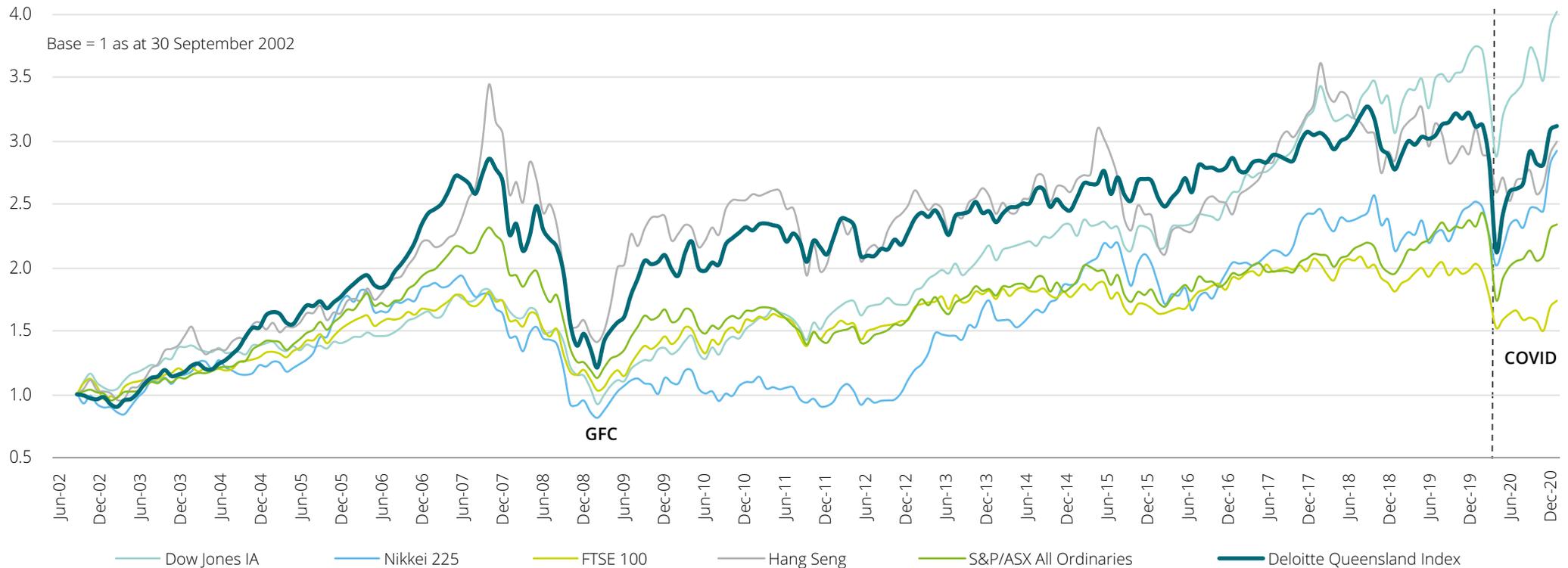
Looking ahead, the state's Achilles heel remains its persistently high unemployment and underemployment (employed persons who would like, and are available, to work additional hours). Without addressing the structural issues in the economy that are keeping these elevated, a sustained recovery will be more difficult for the state.

But Queenslanders deserve to have a spring in their step. The health response to the pandemic has been strong – and that's meant businesses have been able to reopen earlier and to a greater extent. That puts the state's economic recovery several steps in front of some other parts of the country – and even more of the rest of the world.

The Deloitte Queensland Index

There were 173 companies on the Deloitte Queensland Index at 31 December 2020. During the three months ended 31 December 2020 the market capitalisation of 70% (121) of those companies increased, reflecting further recovery in investor confidence since the onset of COVID-19, particularly in the Consumer and Financial sectors.

Deloitte Queensland Index versus Major Indices



The Deloitte Queensland Index increased by 10.6% in Q4 2020 resulting in a positive overall return for 2020 (0.3%), despite a drop of 31.5% in Q1 2020 due to COVID. This is consistent with broader national trends with the S&P/ASX All Ordinaries returning 0.7% for 2020.

Deloitte Queensland Index at 31-Dec-20

173 companies **\$97.2b market cap**

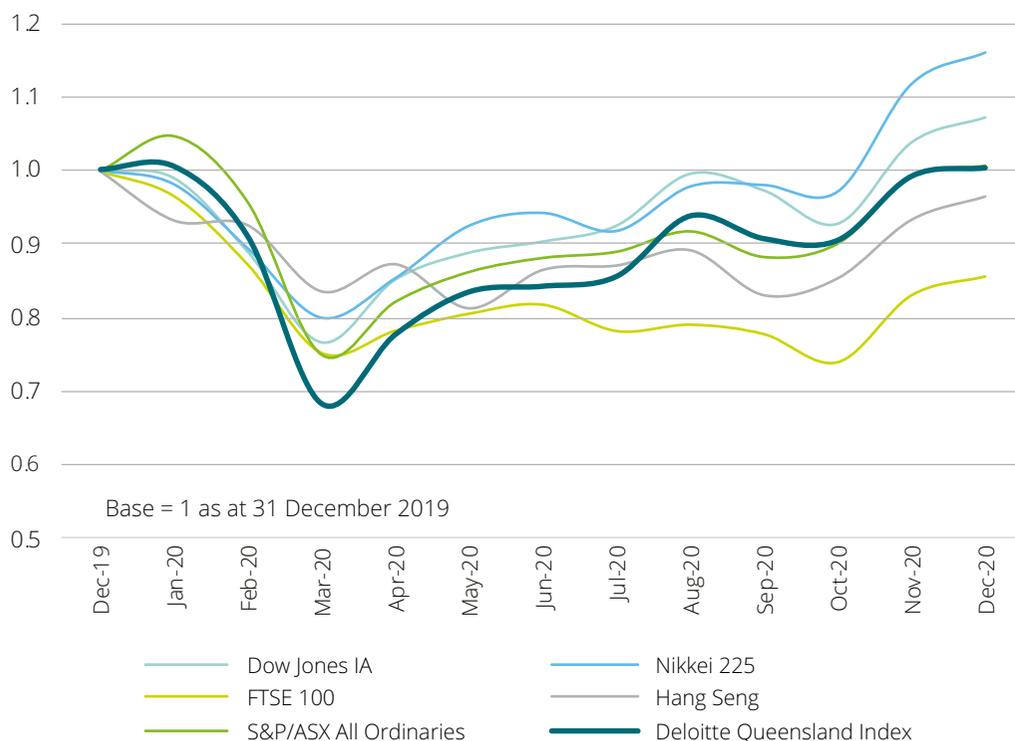
Deloitte Queensland Index return in 2020

10.6% Q4
0.3% YTD

S&P/ASX All Ordinaries return in 2020

14.0% Q4
0.7% YTD

Indices - Dec-20 YTD



The Deloitte Queensland Index increased by 10.6% in Q4 2020, driven by:

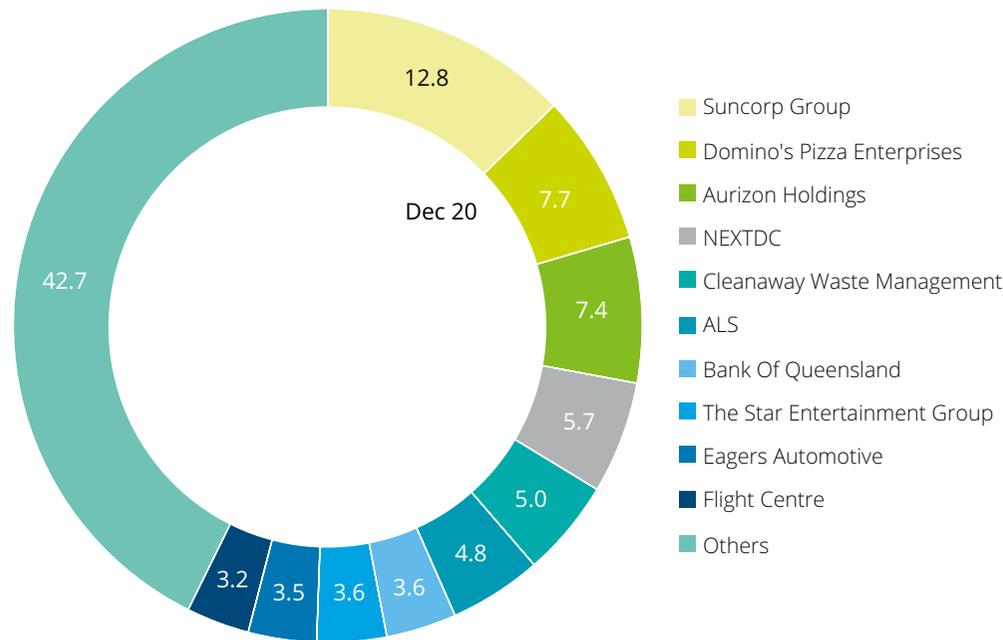
- a market rally amidst a better than expected domestic economic outlook, stimulus packages announced around the World
- the backing of commodity based companies as commodity prices recover, including Orocobre for which market capitalisation increased 89.6% (\$727m) in Q4 due in part to actual and forecast movements in the price of lithium (refer to page 7 for further details)
- continued recovery in the Consumer sector as consumer sentiment continued to increase, this included a significant increase in the market capitalisation of Eagers Automotive from stronger trading conditions, refer to page 7 for further details.

The overall increase in the QLD Index and ASX All Ordinaries for 2020, despite the significant impact of COVID, demonstrates:

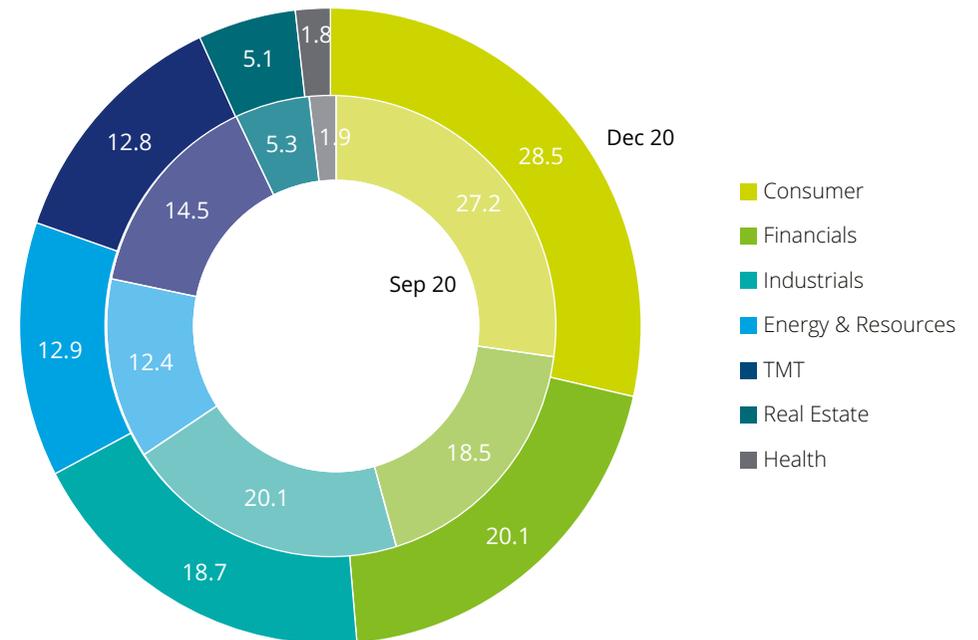
- the optimism held by investors of an improved economic recovery driven by announcement and anticipated distribution of vaccines in 2021, reduced domestic travel restrictions and lockdowns
- continued record low interest rates shifting investors away from the fixed interest market
- substantial increases in the TMT sector as demand for data storage, processing, cloud computing and related services continue to increase, particularly due to the substantial growth in virtual services and online sales. This shift is expected to continue as businesses seek to rapidly pivot towards a greater use of technology and adapt their business models to accommodate changing consumer behaviours and preferences in the current economic climate.

Q4 2020 and the announcement of vaccines has seen a shift away from stocks that were the biggest beneficiaries of COVID (i.e. technology businesses, with the TMT sector market capitalisation declining 0.9% in Q4 2020) towards more cyclical equities such as energy & resources, banks and other FSI businesses which experienced significant increases in market capitalisation during Q4 2020.

Deloitte Queensland Index Largest Companies (%)

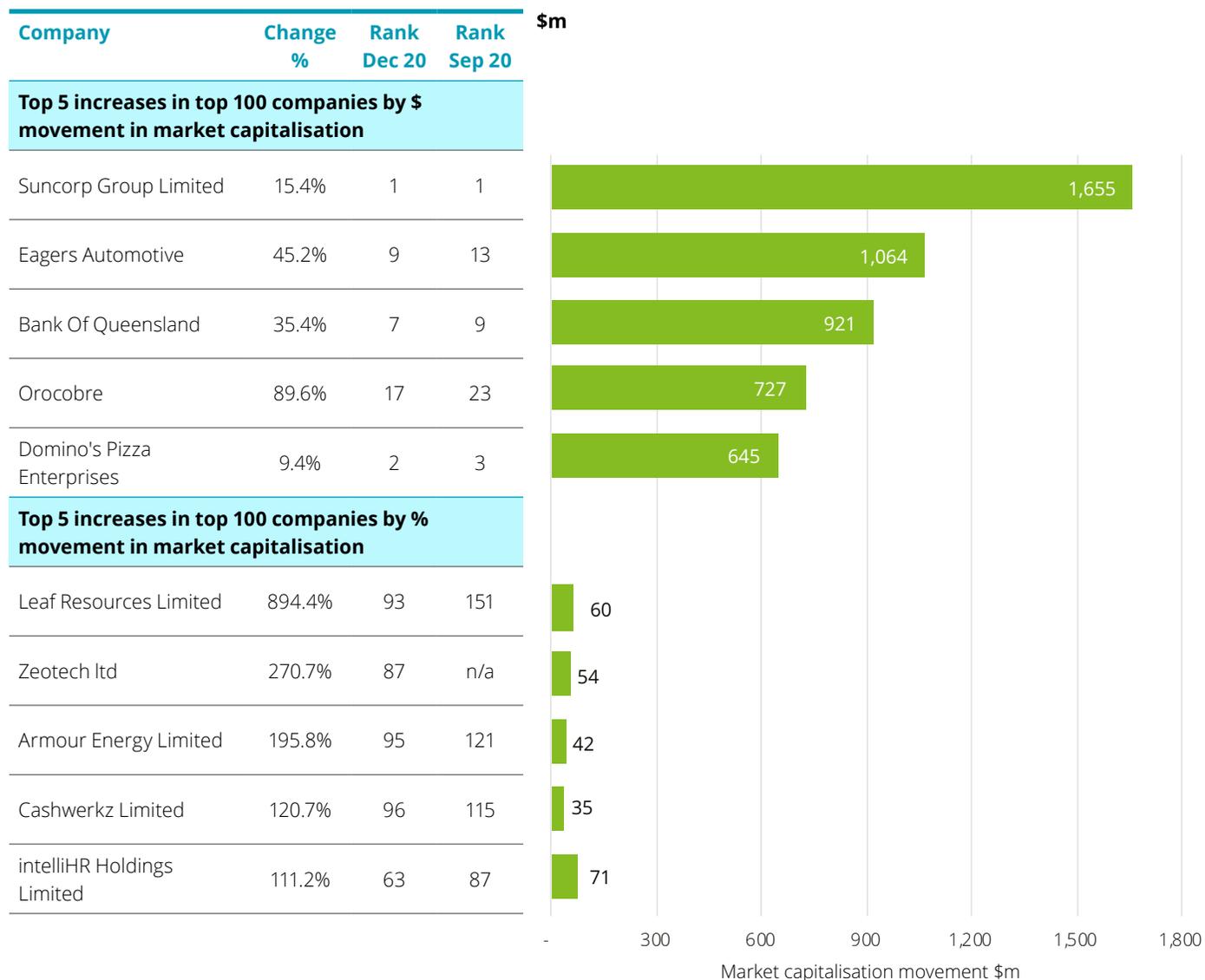


Deloitte Queensland Index Sector Composition (%)



- The composition of the Deloitte Queensland Index shows a reasonable degree of sector diversification. Consumer, Financials and Industrials continue to account for nearly two-thirds of the overall market capitalisation of Queensland listed companies.
- In Q4 2020 there was a shift away from Industrials and towards Consumer driven by:
 - capital raising by Corporate Travel Management to fund acquisitions
 - continued increases in performance of Dominos and Eagers Automotive
 - continued recovery in the sector post the onset of COVID-19 particularly as border restrictions ease.
- During Q4 2020, the companies outside the top 10 performed particularly strongly with average growth in market capitalisation of 15.2%. They now represent 42.7% of the Deloitte Queensland Index (up from 41.2% at Sep-20) as concentration continues to lessen, and in part due to the four IPO's in the quarter.

Queensland Index: top performers in Q4 2020



Top performers over the past three months

Suncorp and **Bank of Queensland** benefited from a transition by investors in Q4 2020 towards the more cyclical sectors that were hardest hit by COVID, such as banks. This was combined with a reduction in COVID-related loan deferrals, resulting in significant increases to market capitalisation.

Eagers Automotive operates automotive dealerships across the country including new and used cars, truck and bus dealerships. They have increased market capitalisation by over \$1bn as a result of delivering strong financial performance as a result of lockdown measures easing across Australia, an announcement of a major asset sale (Daimler Truck Operations and Property), fewer supply chain issues and cost reduction initiatives implemented.

Orocobre is a global lithium chemical supplier and producer of boron. Market capitalisation increased during Q4 2020 as a result of a belief that lithium pricing bottomed out during 2020 and Government targets for the transition away from new petrol and diesel cars will lead to a global reliance on batteries in electric cars.

Leaf Resources, a global green chemistry business, was suspended from quotation from Jul-20 to Dec-20 as a result of an impending acquisition. Upon re-quotation, Leaf resources announced the successful completion of the scrip acquisition of Essential Queensland Pty Ltd and \$3m in funding for growth and compliance activities, leading to an increase in market capitalisation from both share volume and price.

Top companies by market capitalisation

Rank 31 Dec 20	Rank 30 Sep 20	Code	Company	Market cap 31 Dec 20 \$million	Market cap 30 Sep 20 \$million	Change \$million	Change %
1	1	SUN	Suncorp Group	12,436	10,781	1,655	15.4%
2	3	DMP	Domino's Pizza Enterprises	7,500	6,854	645	9.4%
3	2	AZJ	Aurizon Holdings	7,233	8,071	(838)	-10.4%
4	4	NXT	NEXTDC	5,574	5,597	(23)	-0.4%
5	6	CWY	Cleanaway Waste Management	4,836	4,298	538	12.5%
6	5	ALQ	ALS	4,635	4,442	193	4.3%
7	9	BOQ	Bank Of Queensland Limited	3,521	2,599	921	35.4%
8	7	SGR	The Star Entertainment Group	3,484	2,897	587	20.3%
9	13	APE	Eagers Automotive	3,415	2,351	1,064	45.2%
10	8	FLT	Flight Centre Travel Group	3,157	2,741	415	15.2%
11	10	TNE	Technology One	2,634	2,535	99	3.9%
12	15	CTD	Corporate Travel Management	2,387	1,878	509	27.1%
13	12	SUL	Super Retail Group	2,378	2,375	2	0.1%
14	14	CMW	Cromwell Property Group	2,277	2,221	56	2.5%
15	11	MP1	Megaport	2,205	2,483	(277)	-11.2%
16	16	NSR	National Storage REIT	1,944	1,847	97	5.2%
17	23	ORE	Orocobre	1,538	811	727	89.6%
18	19	EML	EML Payments	1,512	1,031	482	46.8%
19	21	PNI	Pinnacle Investment Management Group	1,241	884	357	40.3%
20	18	NHC	New Hope Corporation	1,179	1,070	109	10.2%

For a list of the top 100 companies in the Deloitte Queensland Index as at 31 December 2020 and their movement in market capitalisation from Dec-19 to Sep-20 and Dec-20 [please refer here](#).

The top 20 companies by market capitalisation are summarised opposite.

Of the top 20 Queensland listed companies at Dec-20, 17 resulted in increased market capitalisation during Q4 2020. Notable increases in market capitalisation are discussed below.

Pinnacle Investment Management Group (PNI) was a new entrant in the top 20 in Dec-20, recording a 40.3% (\$357m) increase in market capitalisation (to \$1.2bn) in Q4 2020. PNI invests in a number of investment managers (such as equity fund managers) and its market capitalisation increased as a result of equity markets rallying in Q4 2020.

Corporate Travel Management's market capitalisation increased by 27.1% (\$509m) in Q4 2020 primarily due to a \$375m secondary raising to support the acquisition of Travel & Transport, Inc., associated transaction and integration costs and provide balance sheet flexibility.

The Star Entertainment Group and Flight Centre increased market capitalisation during Q4 2020 as a result of increasing optimism around the travel sector (due to the easing of restrictions / re-opening of state borders within Australia) and the prospect of COVID vaccines allowing international travel in the short/medium-term.

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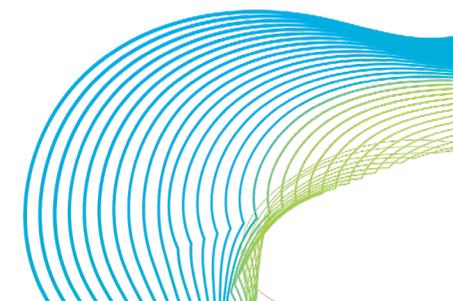
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Sources

Queensland M&A transaction data presented within:

- reflects transactions for which one or more of the vendor, target and/or buyer are based or headquartered in Queensland
- is based on the timing of the announcement of the transaction
- excludes announced transactions which have been cancelled
- is sourced from S&P Global Market Intelligence and public announcements
- includes transaction values only where the value has been publicly disclosed.

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