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The State of the Deal and Deloitte Queensland Index

November 2020

Contents

Executive Summary

The COVID-19 pandemic has clearly had an adverse impact on the returns from Queensland listed companies and M&A activity, however, conditions are favourable for a continued rebound in M&A activity as businesses must rapidly respond to changes in consumer sentiment and Government regulations

Deloitte Queensland Index return in YTD Sep-20*

-9.3%

S&P/ASX All Ordinaries return in YTD Sep-20

-11.7%

Announced QLD M&A transactions in YTD Sep-20

170 deals

209 in YTD Sep-19

Disclosed value of announced QLD M&A transactions in YTD Sep-20

$7.0b

$10.0b in YTD Sep-19

Secondary capital raisings in QLD in YTD Sep-20

39 companies

33 in prior comparative period

Secondary capital raised in YTD Sep-20

$2.9b

Representing 3.1% of total Queensland market capitalisation

Companies in the Deloitte Queensland Index

170 at 30 September 2020

172 at 30 June 2020

$86.7b at 30 September 2020

$80.4b at 30 June 2020

***123** companies increased market capitalisation (72%)*

***33** companies decreased (20%)*

***14** no movement (8%)*

***0** new entrants*

* Year to date September 2020 (YTD Sep-20) comprises the nine months ended 30 September 2020.

A swift response to closing borders and implementing social distancing measures has seen Australia 'flatten the curve' sooner than other global counterparts and remain in a position of strength as the world continues its fight against the virus. Recent outbreaks have been alarming, but Australia, and Queensland in particular, is still in an envious position compared to many other developed countries for now.

Both the Deloitte Queensland Index, comprising all Queensland based ASX listed companies, and ASX All Ordinaries declined in the nine months ended 30 September 2020. However, the decline in the Deloitte Queensland Index was smaller than the ASX All ordinaries. This reflects resiliency within Queensland's sectors impacted by the pandemic and the increasing share price performance of Queensland's listed technology companies. The latter has been driven by the demand for data storage and processing, cloud computing and related services which continues to increase. Despite the challenges, more than a third (40%) of Queensland listed companies increased their market cap during this time.

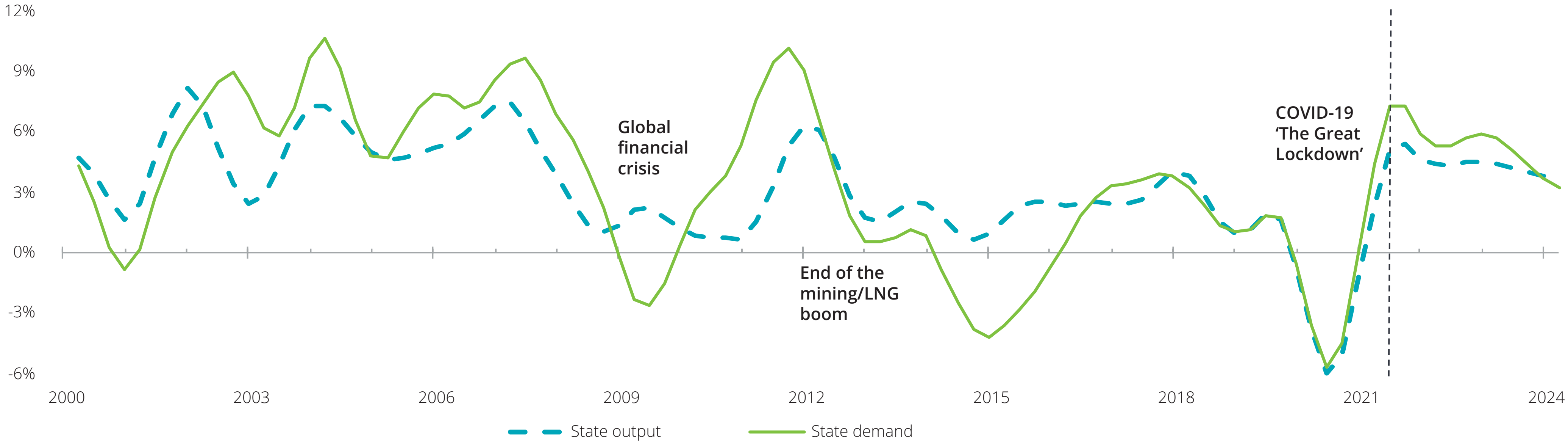
As expected, the pandemic has also had a significant impact on M&A deal activity in Queensland. During the last nine months, there have been 170 M&A transactions announced in QLD compared to 209 in the prior comparable period.

Clearly there remains economic uncertainty about the recovery. However, the conditions for M&A are favourable. Many companies need to rapidly shift their business models, pivoting towards greater use of technology and changing consumer behaviours. One way to realise capital is by divesting non-core assets. In addition, Private Equity will be looking to take advantage of a potential reduction in valuations with ~$13b of 'dry powder' to be invested.

Queensland economic update

With Queensland experiencing widespread bushfires and droughts in the last two years, the coronavirus crisis is yet another hurdle for economic growth – and it's the biggest hurdle of them all. While the pace of economic growth had already been trending downwards since 2018, 'the Great Lockdown' presented the sharpest economic contraction in modern memory

Queensland output and demand (change on year earlier)



Source: Deloitte Access Economics, September Quarter 2020.

The closure of international borders has ground the state's normally bustling international tourism sector to a halt, with international visitors – a cohort that typically spends more and stays longer than domestic visitors – having all but dried up. And where domestic tourism may have been able to fill some of that void, the closure of state borders has made that all but impossible for most of this year.

The state's other major export, coal, has also taken a tumble – global demand for coking coal has weakened materially through this year due to the pandemic. And while the state's gas production sector is on a firmer footing, it too is feeling the pain of the drop in world energy prices.

Around the world, steelmakers have announced production cuts in response to the slowdown in steel demand arising from COVID-19. As a result, hard coking prices fell by a third between March and August. Recent months have seen the price lift again, but it still sits well below pre-crisis levels.

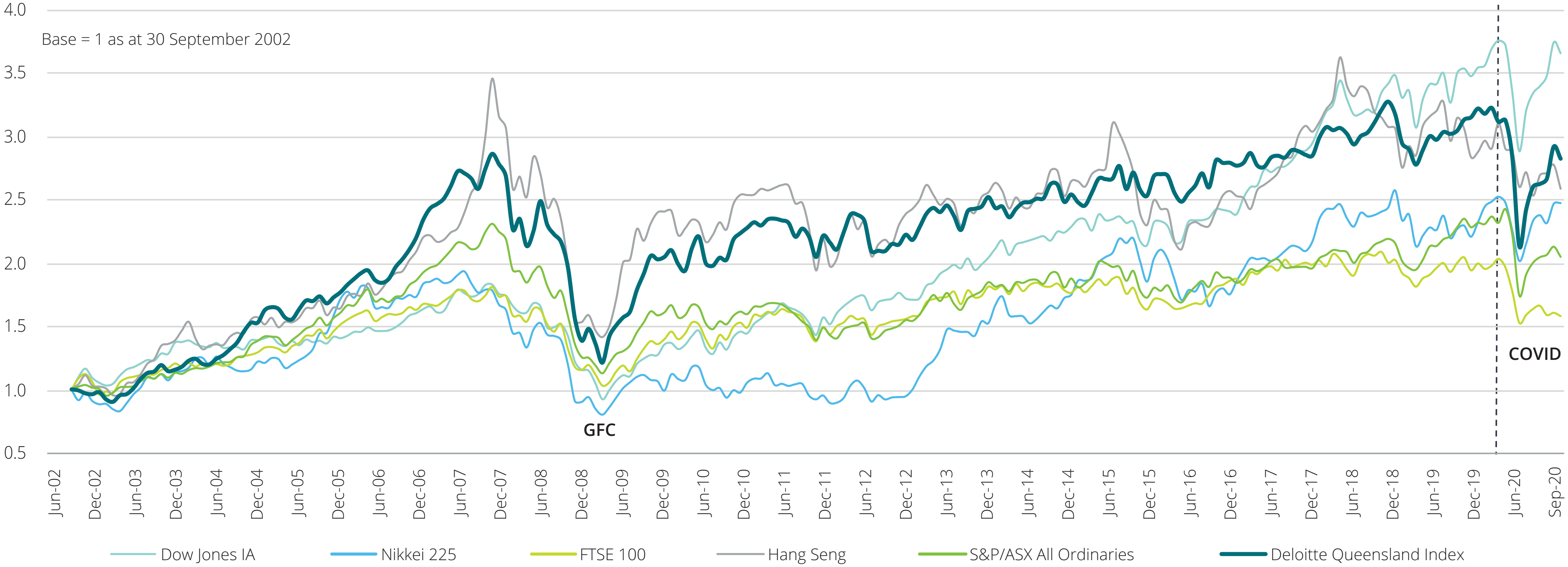
Further to this, tensions between Australia and China are creating risks for the state economy and breeding uncertainty (in addition to the great unknown of COVID-19). As a result, confidence has plummeted and businesses aren't spending – it is going to take a good jolt to change that.

On a more positive note, the easing of restrictions, is expected to further support household consumer spending, and with the state's domestic borders beginning to re-open, pent-up demand is expected to accelerate the recovery, driven by those wanting to visit friends and relatives following the 'Great Lockdown'.

The Deloitte Queensland Index

There were 170 companies on the Deloitte Queensland Index at 30 September 2020. During the nine months ended 30 September 2020 the market capitalisation of 68 companies across various industries increased as a result of inflows from secondary capital raisings and increasing share prices reflecting investor confidence in local listed corporates

Deloitte Queensland Index versus Major Indices



The market capitalisation of 85 companies decreased during the nine months ended 30 September 2020, largely relating to key industries impacted by the pandemic.

The Deloitte Queensland Index decreased 9.3% during the nine months ended Sep-20 (31.5% decrease in Q1 2020) due to the pandemic, a smaller decline than the broader S&P/ASX All Ord's (11.7%) due to stronger share price performance of TMT companies and a partial recovery in QLD consumer companies

Deloitte Queensland Index at 30-Sep-20

170 companies | **$86.7b market cap**

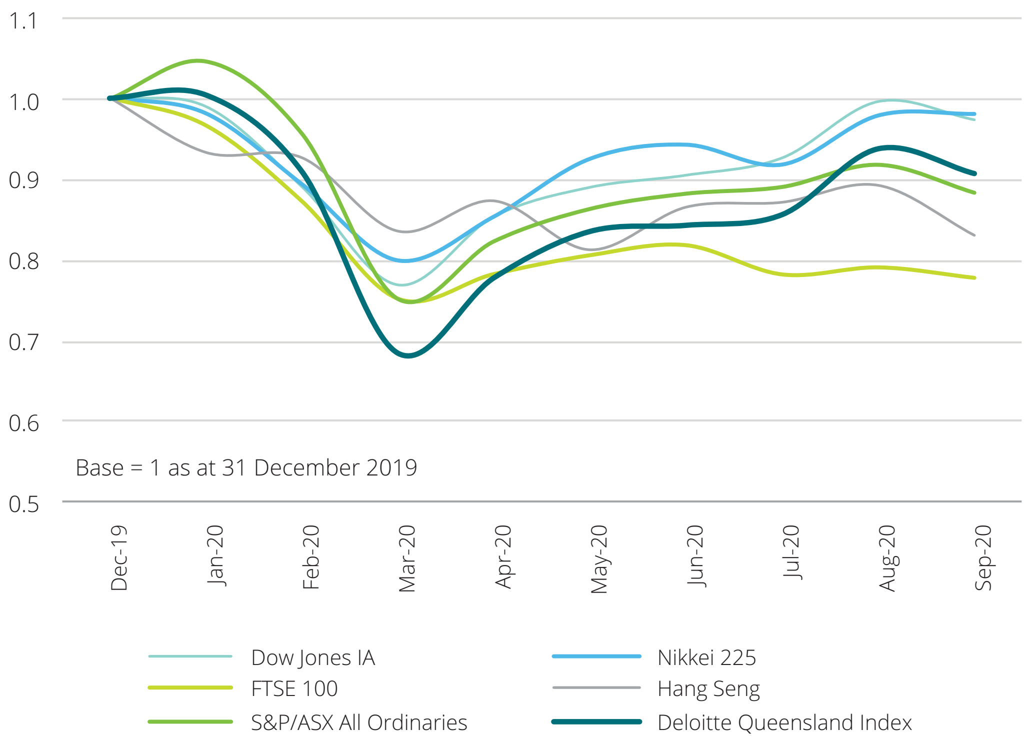
Deloitte Queensland Index return in YTD Sep-20

-31.5% Q1
-9.3% YTD

S&P/ASX All Ordinaries return in YTD Sep-20

-24.9% Q1
-11.7% YTD

Indices - Sep-20 YTD



The Deloitte Queensland Index was more severely impacted by COVID-19 earlier in 2020, returning -31.5% in the first quarter and underperforming the S&P ASX All Ordinaries Index (return of -24.9%). This was mostly driven by differing industry compositions with those industries significantly affected by COVID-19 (consumer and FSI) accounting for a larger portion of the Deloitte Queensland Index and lower levels of company diversification within the affected industries.

However, over the nine months ended Sep-20, the Deloitte Queensland Index (which declined 9.3%) has actually outperformed the ASX All Ordinaries (which declined 11.7%) reflecting:

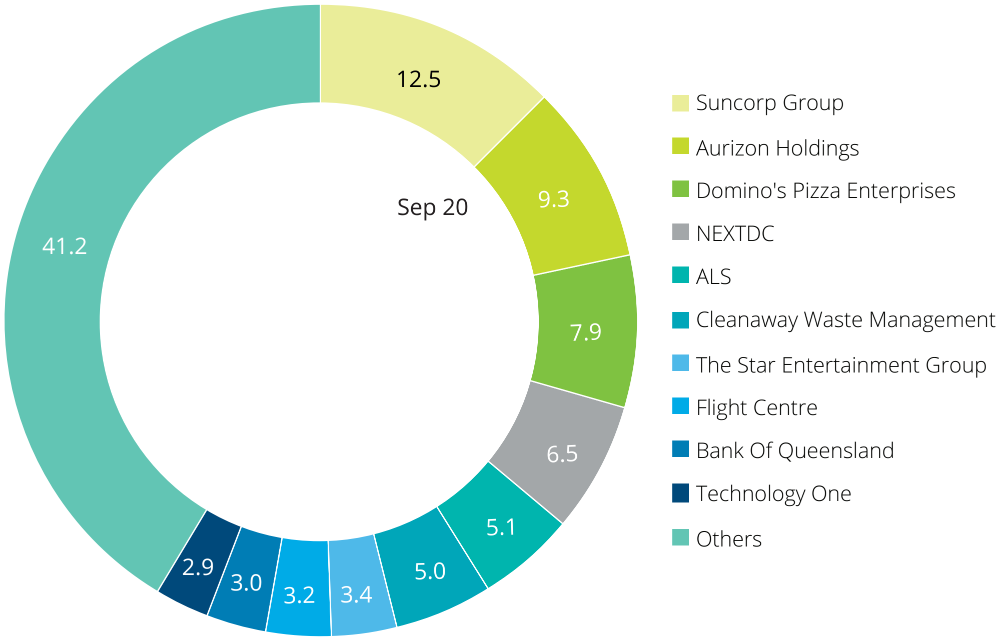
- a partial recovery in the Consumer sector, particularly retailers with strong online offerings. This included the significant increase in Domino's share price reflecting high demand for affordable convenience food during the lockdowns.
- substantial increases in share prices in the TMT sector, particularly for Next DC, Data#3 and Megaport reflecting increasing demand for data storage and processing, cloud computing and related services (see page 8 for details).

The overall decline in the Deloitte Queensland Index over the nine months ended Sep-20 is attributed to:

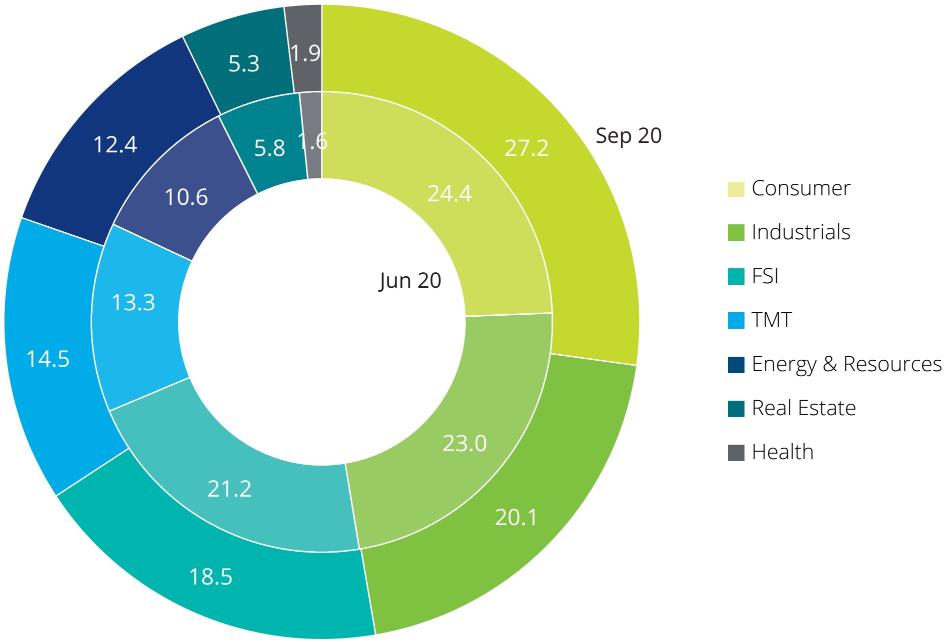
- FSI sector, for which market capitalisation declined 29.8%, as a result of uncertainty around ongoing debt servicing capabilities given job losses and pay reductions arising from COVID-19 and reducing interest rates
- Consumer sector, for which market capitalisation declined 6.4%, with domestic and international border closures driving investor uncertainty for travel businesses (e.g. Flight Centre and Corporate Travel Management) and lockdowns and ongoing social distancing requirements temporarily reducing capacity of entertainment facilities (e.g. Star Entertainment Group).

In Q3 2020 there has been a significant shift in the Deloitte Queensland Index away from FSI and Industrials towards Consumer and Energy & Resources with TMT continuing to increase its contribution throughout 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 and Industrials continue to account for nearly half of the overall market capitalisation of Queensland listed companies.
- In Q3 2020 there has been a significant shift in the Deloitte Queensland Index away from FSI and Industrials, towards Consumer (27.2% at Sep-20), Energy & Resources (12.4% at Sep-20) and TMT (14.5%). The TMT sector has benefitted from the pandemic and consistently grown during the year having accounted for 8.5% of the Deloitte Queensland Index at the start of 2020. The performance of Consumer and Energy & Resources reflects a partial recovery in sentiment in Q3 2020.
- During Q3 2020, the companies outside the top 10 performed particularly strongly with average growth in market capitalisation of 17.8%. They now represent 41.2% of the Deloitte Queensland Index (up from 35.2% at Jun-20) as concentration lessons.

Top companies by market capitalisation

Rank 30 Sep 20	Rank 30 Jun 20	Code	Company	Market cap 30 Sep 20 $million	Market cap 30 Jun 20 $million	Change $million	Change %
1	1	SUN	Suncorp Group	10,781	11,776	(995)	-8.5%
2	2	AZJ	Aurizon Holdings	8,071	9,420	(1,349)	-14.3%
3	3	DMP	Domino's Pizza Enterprises	6,854	5,924	931	15.7%
4	5	NXT	NEXTDC	5,597	4,496	1,101	24.5%
5	6	ALQ	ALS	4,442	3,164	1,278	40.4%
6	4	CWY	Cleanaway Waste Management	4,298	4,519	(221)	-4.9%
7	9	SGR	The Star Entertainment Group	2,897	2,601	296	11.4%
8	11	FLT	Flight Centre	2,741	2,213	529	23.9%
9	8	BOQ	Bank Of Queensland	2,599	2,799	(200)	-7.1%
10	7	TNE	Technology One	2,535	2,801	(266)	-9.5%
11	13	MP1	Megaport	2,483	1,851	631	34.1%
12	14	SUL	Super Retail Group	2,375	1,769	607	34.3%
13	15	APE	Eagers Automotive	2,351	1,734	617	35.6%
14	10	CMW	Cromwell Property Group	2,221	2,352	(130)	-5.5%
15	19	CTD	Corporate Travel Management	1,878	1,056	822	77.8%
16	12	NSR	National Storage REIT	1,847	1,870	(23)	-1.2%
17	18	CKF	Collins Foods	1,197	1,098	99	9.0%
18	17	NHC	New Hope Corporation	1,070	1,135	(66)	-5.8%
19	16	EML	EML Payments	1,031	1,201	(171)	-14.2%
20	23	DTL	Data#3	1,010	699	311	44.5%

The top 20 companies by market capitalisation are summarised opposite.

Despite the challenges associated with the pandemic, 11 of the top 20 saw their market capitalisation increase during Q3 2020. The increase in the market cap of Domino's reflects the shift in consumer spending towards affordable convenience food.

NEXTDC was a new entrant in the top 10 in Mar-20 and top 5 in Apr-20 with its market capitalisation nearly doubling in Q2 2020 and now rising to 4th with a further $1.1b added. The strong performance from TMT companies also saw Megaport rise to 11th and Data#3 enter the top 20.

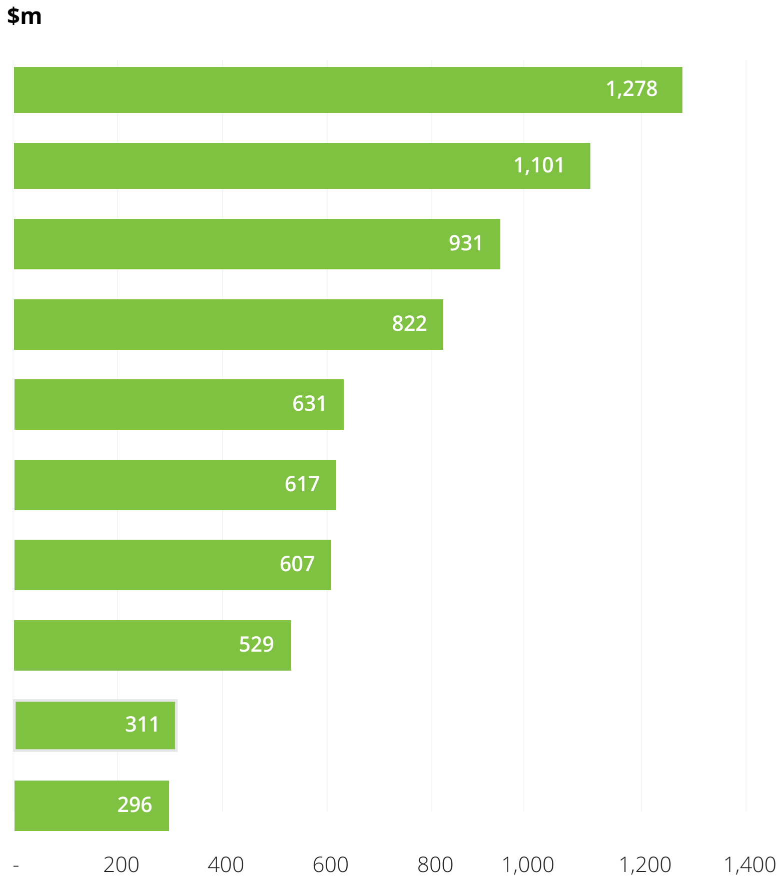
Meanwhile the companies severely impacted by the disruption to tourism, travel and discretionary consumer spending in the immediate aftermath of the COVID restrictions (for example Flight Centre, The Star Entertainment Group and Eagers Automotive) saw a partial recovery in their share prices and market capitalisation in Q3 2020.

Suncorp and Bank of Queensland both experienced a reduction as the banking sector raised provisions to cover losses caused by the challenging economic environment.

ALS was the top performer over the past three months buoyed by the strong demand for its new services including COVID-19 surface sampling as well as testing and facility hot spot mapping

Queensland Index: increases in Q3 2020 (market capitalisation movement $m)

Company	Change %	Rank Sep 20	Rank Jun 20
ALS	40.4%	5	6
NEXTDC	24.5%	4	5
Domino's Pizza Enterprises	15.7%	3	3
Corporate Travel Management	77.8%	15	19
Megaport	34.1%	11	13
Eagers Automotive	35.6%	13	15
Super Retail Group	34.3%	12	14
Flight Centre	23.9%	8	11
Data#3	44.5%	20	23
The Star Entertainment Group	11.4%	7	9



Top performers over the past three months by market capitalisation movement

ALS was the top performer in the Deloitte Queensland Index based on market capitalisation movement. Its current share price is now getting close to the 52-week high, reflecting demand for new services including COVID-19 surface sampling as well as testing and facility hot spot mapping.

NEXTDC market capitalisation increased $1.1b following a $2.2b gain in H1 2020. This reflects strong demand in the data centre industry with a focus on remote working and increased cybersecurity.

Domino's Pizza Enterprises market capitalisation increased 15.7% as the share price continued to grow reflecting high demand for affordable convenience food during the lockdowns.

Corporate Travel Management specialises in the provision of travel solutions across corporate, events, leisure, loyalty and wholesale travel. Despite COVID-19 impacting travel, the company has performed strongly due to its online focus and aggressive growth strategy including the acquisition of United States-based Travel & Transport (T&T) announced in September 2020.

Megaport market capitalisation has benefitted from continued growth in its footprint in data centres globally. This has been combined with strong demand thanks to the shift to the cloud helping to increase its customer base.

Queensland listed company market snapshot

While IPO activity has been muted, secondary raisings have increased significantly as Queensland listed companies respond to COVID-19

IPOs in Australia in YTD Sep-20

24 IPOs

Capital raised from YTD Sep-20 IPOs in Australia

$513m

Average capital raised

$21m

Secondary capital raising in Queensland in Sep-20 YTD

39 companies

$2.9b capital raised

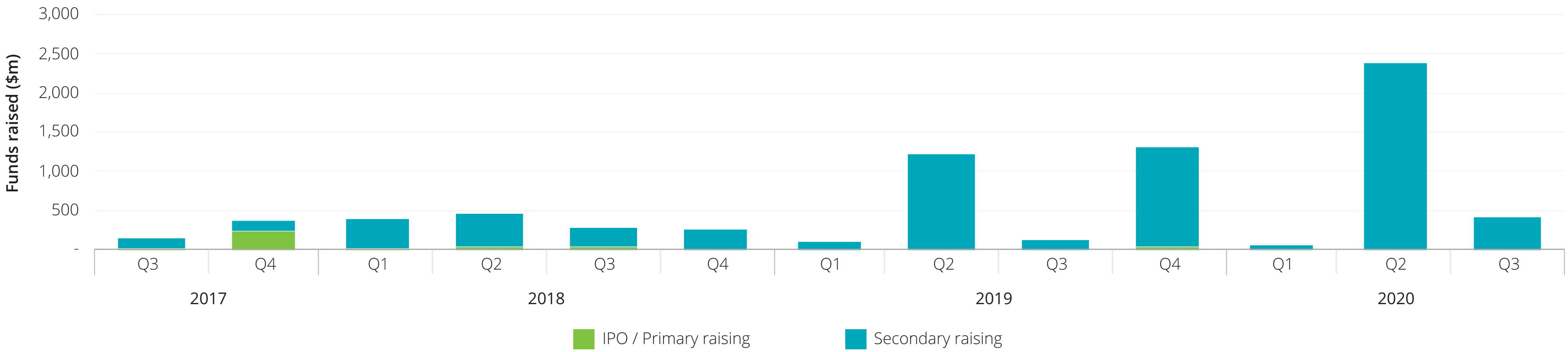
Average secondary raise per company

$74m

Secondary raisings as a proportion of Queensland market capitalisation

3.1%

Capital raisings by Queensland based listed companies



Over the 9 months to 30 September 2020 a total of 24 new companies listed on the ASX, decreasing from the 36 in the prior comparative period. Only three of these occurred in the second quarter when the pandemic was placing material downward pressure on the market.

The response to COVID-19 has seen an unprecedented level of secondary capital raisings as Queensland listed companies look to shore up balance sheets and increase liquidity. $2.4b was raised in 2Q 2020. This was supported by post-COVID-19 measures introduced by the ASX including raising the cap on equity placements from 15% to 25%.

Notable Queensland secondary raisings included Flight Centre ($700m), NextDC ($672m) and G8 Education ($302m). In fact, secondary raisings represented 3.1% of the total Queensland market capitalisation which is nearly three times higher than the Australian ASX average. This largely reflects Queensland's weighting towards sectors that were hit hard early in the crisis and had to quickly bridge short-term liquidity needs.

The number of Queensland based IPOs has been limited for some time with two in the last two years (Terragen Holdings and Macarthur Minerals). However, the ASX-200 has now recovered 63% of the drop that occurred post-COVID-19. We are seeing a significant increase in enquiries – particularly in the technology, telecom, healthcare and E&R sectors – an ASX listing is very much a viable option to raise capital with a number of companies looking to achieve a listing before Christmas.

Queensland M&A Overview

Queensland M&A activity was subdued in YTD Sep-20, particularly in the second quarter following the onset of COVID-19. M&A activity increased in the third quarter and this momentum is expected to continue in the near term as companies look to respond strategically to the crisis and as Private Equity looks to capitalise on existing dry powder

Announced QLD M&A transactions in YTD Sep-20

170 deals

18.7% decrease from YTD Sep-19

Disclosed value of announced QLD M&A transactions in YTD Sep-20

$7.0b

29.8% decrease from YTD Sep-19

QLD buyers investing in foreign assets in YTD Sep-20

14.1% of deals

Up from 12.4% in YTD Sep-19

Announced M&A transactions by QLD ASX-listed companies in YTD Sep-20

53 deals

27.4% decrease from YTD Sep-19

Disclosed value of announced M&A transactions by QLD ASX-listed companies in YTD Sep-20

$4.9b

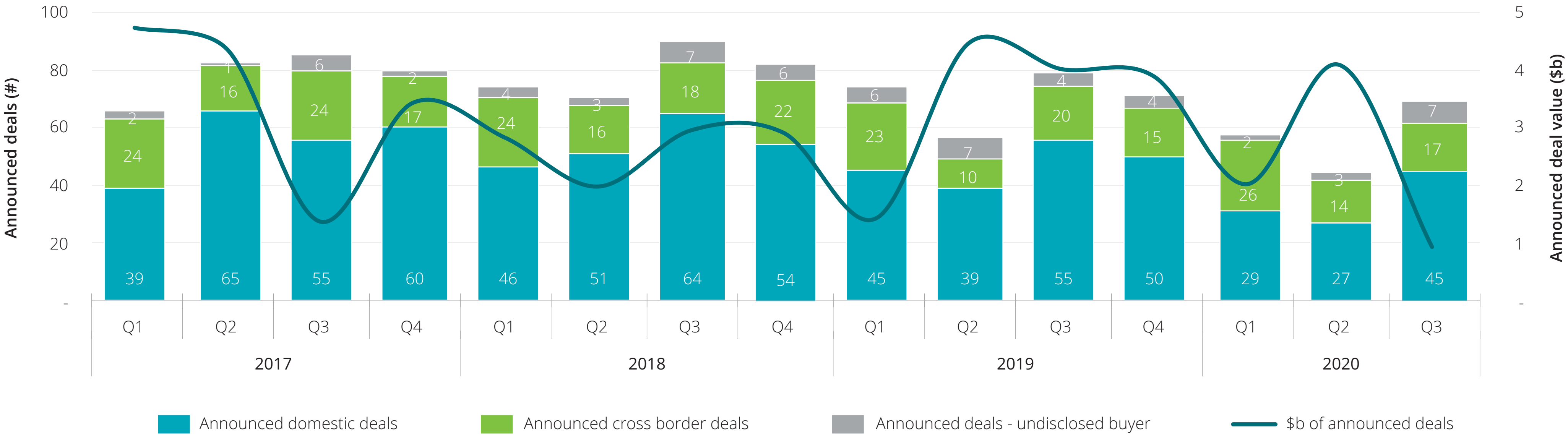
0.6% increase from YTD Sep-19

Foreign buyers investing in QLD in YTD Sep-20

13.5% of deals

Up from 9.1% in YTD Sep-19

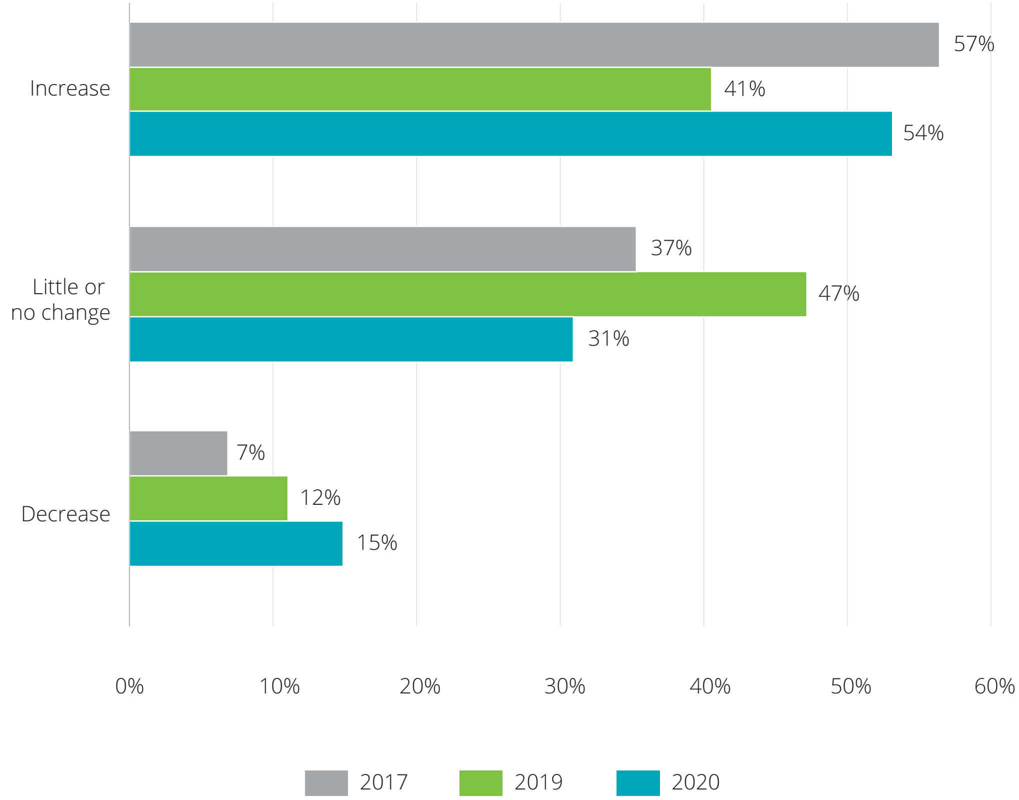
Queensland announced M&A transactions



- As expected, 2020 has seen reduced deal volume as a result of COVID-19 with deal value supported by the announcement of the acquisition of Virgin Australia by Bain Capital for $3.5b in Jun-20.
- However, cross border transaction volume slightly increased from 53 in YTD Sep-19 to 57 in YTD Sep-20 despite border restrictions.
- Half of the announced cross border deals in YTD Sep-20 comprised inbound investment from overseas buyers. This is despite temporary changes to refer all inbound deals to FIRB (regardless of size) and extending the FIRB processing time to around six months.
- Inbound M&A activity continued to be largely attributed to American and European corporations, with Technology the predominant target sector, consistent with recent historical trends.

Despite the expected negative effects that COVID-19 will have on deal activity, Australian corporates expect the volume of transactions pursued to rise

- In Feb-20, prior to the emergence of COVID-19 as a health and economic crisis in Australia, our **Australian Heads of M&A Survey** revealed that a majority (58%) of corporates were preparing for or considering a divestiture to streamline the portfolio and divest non-core assets and 54% expected deal activity to increase.
- While COVID-19 has negatively impacted deal volume in YTD Sep-20, M&A activity is expected to continue in the near term, albeit with a shift in trends, as companies respond strategically to the crisis via:
  - distressed transactions
  - non-core asset divestment to realise cash, fund ongoing operations and build portfolio resiliency in a post COVID-19 environment
  - offensive M&A in flourishing sectors
  - strategic acquisitions, including to respond to the recent rapid change in consumer trends, the new operating environment arising from lockdowns and securing supply chains
  - Private Equity funds looking to deploy their significant levels of 'dry powder'.



Source: Australian Heads of M&A Survey.

YTD Sep-20 M&A transaction volume was largely supported by the continuation of E&R and TMT deal levels with the Consumer and Industrials sectors experiencing the largest reduction in deal volume as a result of the uncertainty surrounding the outlook for these sectors

Sector	Most active subsector/s (YTD Sep-20)	Announced deals # (209 YTD Sep-19 / 170 YTD Sep-20) YTD Sep-19	Announced deals # YTD Sep-20	Announced deals value $m (10,012 YTD Sep-19 / 7,026 YTD Sep-20) YTD Sep-19	Announced deals value $m YTD Sep-20
Energy, Resources & Utilities	Exploration and Mining - Coal and Gold	31	40	1,307 (from 24 deals)	566 (from 28 deals)
Consumer	Agriculture and Hotels, Restaurants & Bars	50	35	2,849 (from 30 deals)	759 (from 18 deals)
TMT	Information Technology	25	34	1,038 (from 12 deals)	136 (from 9 deals)
Real Estate		21	17	3,383 (from 16 deals)	1,742 (from 12 deals)
Industrials	Commercial & Professional Services	50	19	1,180 (from 29 deals)	3,692 (from 9 deals)
Health		23	16	177 (from 14 deals)	125 (from 6 deals)
FSI	Insurance	9	9	77 (from 3 deals)	5 (from 2 deals)

YTD Sep-19 YTD Sep-20

Significant transactions announced in YTD Sep-20

Target: Business of Virgin Australia Holdings Limited

Acquirer: Bain Capital, LP

Announced date: Jun-20

Announced deal value: $3.5b

Sector: Industrials - Airlines

Description: Following the appointment of Deloitte as the voluntary administrators of Virgin Australia, the distressed airline was approved by creditors for sale to US-based Bain Capital for $3.5b.

Target: Travel and Transport Inc

Acquirer: Corporate Travel Management Limited

Announced date: Sep-20

Announced deal value: $284m

Sector: Consumer - Travel

Description: ASX Listed Corporate Travel Management announced the acquisition of the US based travel management business Travel and Transport, Inc. which includes Radius Travel, a global network of corporate travel agencies.

Target: 70,000 sqm Bellevue office property in Washington and a Falls Creek apartment property in Virginia

Acquirer: Qsuper Limited

Announced date: Jan-20

Announced deal value: $1.0b

Sector: Real Estate

Description: QSuper has progressively increased its global real estate holdings to A$5.4b following the acquisition of a US-based two-tower office (Bellevue) and a Falls Creek apartment complex.

Target: Universal Coal PLC

Acquirer: TerraCom Limited

Announced date: Feb-20

Announced deal value: $232m

Sector: Energy, Resources & Utilities - Energy

Description: TerraCom announced the compulsory acquisition of the remaining shares of South African coal miner, Universal Coal.

Target: Mt Ommaney Shopping Centre

Acquirer: YFG Shopping Centres Pty Ltd

Announced date: May-20

Announced deal value: $285m

Sector: Real Estate

Description: YFG announced the acquisition of the remaining 75% stake in Mt Ommaney Shopping Centres after acquiring an initial 25% stake from Vicinity Centres in late 2019.

Target: Stanmore Coal Limited

Acquirer: Golden Energy and Resources Limited

Announced date: Apr-20

Announced deal value: $124m

Sector: Energy, Resources & Utilities

Description: GEAR announced an on-market takeover for Stanmore Coal, which has operations and exploration projects in the Bowen and Surat Basins.

Contacts

For more information or any questions on this publication or Deloitte's services contact:

Rob McConnel

Qld Leader, M&A & Financial Advisory
+61 7 3308 7300
robmcconnel@deloitte.com.au

Alex Jordan

Partner, M&A Advisory
+61 7 3308 7221
alexjordan@deloitte.com.au

Renee Jaszewski

Director, M&A Valuations
+61 7 3308 7377
rjaszewski@deloitte.com.au

John Greig

Managing Partner, Queensland
+61 7 3308 7108
jgreig@deloitte.com.au

Nick Bright

Director, M&A Transaction Services
+61 7 3308 7392
nbright@deloitte.com.au

Cassandra Matthews

Associate Director, M&A Transaction Services
+61 7 3308 1269
casmatthews@deloitte.com.au

Pradeep Philip

Partner, Deloitte Access Economics
+61 7 3308 7224
pphilip@deloitte.com.au

Claire Atkinson

Associate Director, Deloitte Access Economics
+61 7 3308 1249
catkinson@deloitte.com.au

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.

For more M&A insights visit www.deloitte.com/au/m-and-a

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