Deloitte.

The Deal in Focus
Heads of M&A Survey

July 2024

Contents

Foreword

After sailing into the wind for the past 12 to 18 months, Australia's mergers and acquisitions (M&A) community could be excused for steering into calmer waters and taking an extended holiday.

But while the forecast still isn't sunshine and rainbows, our 2024 edition of *The Deal in Focus: Heads of M&A Survey* paints a surprisingly bullish picture of the year ahead: economic fundamentals are sound, balance sheets are strong, and the valuation gap is slowly shrinking.

Corporate heads of M&A are understandably optimistic. Still, the appetite for growth is clear, and there are unmistakeable opportunities for businesses to pursue disciplined, strategic deals.

Now in its seventh year, this report is a rich and unique resource for decision makers and industry professionals looking to sharpen their competitive edge and make informed, strategic decisions. In the pages ahead, discover what Australia's M&A leaders are thinking, why they're thinking it, and what it means across the key issues and industries at play.

Jamie Irving
Partner, Mergers & Acquisitions

Your views, your voices, your M&A

Key stats, insights and opinions from our 2024 Heads of M&A survey.

You say, the economy is good for deal making

76%

believe economic conditions **support M&A activity**, up from **66%** in 2023 and closer to the 2022 high of **79%**.

74%

are confident the economy will **recover and thrive** in the next 12 months, compared to **52%** in 2023.

"The top of the interest rate cycle means more normality in the industry. It creates confidence."

As a result, optimism is rising

53%

expect more deals in the **next 12 months**, up from **45%** in 2023.

"We're cautiously confident about the market and expect the second half of the calendar year to be a more supportive environment."

So, what's the deal?

You're interested in exploring:

Acquisitions (79%)

"Our focus is on acquisitions to grow the core business."

M&A alternatives (47%)

"Increasingly looking to do partnerships/strategic alliances to enter new markets."

Divestitures (33%)

"We're looking to divest non-core assets."

Your views, your voices, your M&A

The deal drivers

Highest priorities:

1. Fill gaps in core portfolio
2. Synergy capture.

"We're looking to address capability gaps and capture market opportunities."

Lowest priorities:

1. Build supply chain resilience
2. Sale of distressed/ underperforming assets.

"We're not interested in divestments, but we're keen to acquire capabilities that fill gaps in our service offering."

When it comes to capital allocation

63% say investing in inorganic growth is a high priority.

"Our core remit is to acquire similar businesses to increase synergies and scale."

To fund this, **79%** plan to leverage excess cash and operating cash flows.

But it's a bumpy road to success

Top economic obstacle:
Interest rate movements (54%)

Number-one challenge:
Valuation of assets (67% of respondents) – third year in a row.

"Valuations are expensive. Debt is expensive. Interest rates not favourable for deal making."

And time is a factor

49% experienced an increase in transaction duration. *"Deals that typically took two to three months now taking four to five."*

Your views, your voices, your M&A

Still, there may be hidden opportunities

55% of you don't consider the **value of intellectual property.**

Only **32%** of you see ESG as a **source of value creation.**

"No, we haven't explicitly considered current and potential value of IP, but we probably should!"

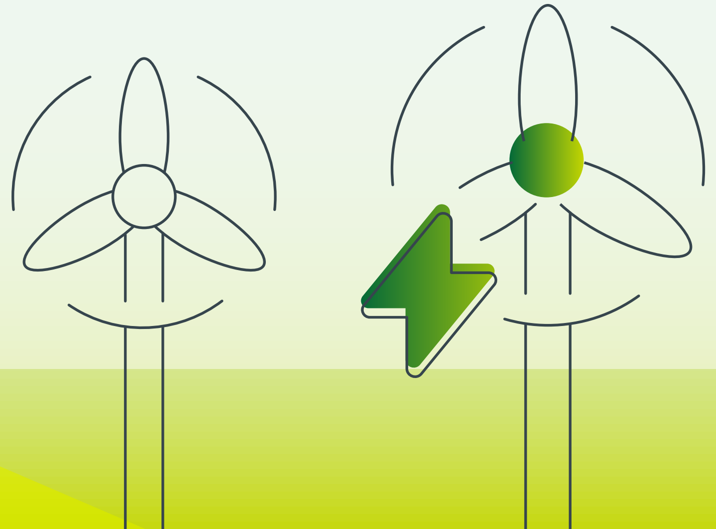
But, for many the future is clear

"If ESG doesn't have a green tick, we won't proceed."

"The energy transition is a longer-term trend."

31% of you withdrew during ESG due diligence, **up from 18% last year.**

"Good opportunities in energy transition and decarbonisation."



For others, it's give and take

The biggest disruptive forces impacting your M&A decisions:

1. Changing economic cycle
2. Regulatory change
3. Technology.

"Uncertainty is double edged – it gets the pricing you need but it affects the board. It takes courage to be counter cyclical."

But, as they say, nothing ventured, nothing gained

"M&A is our top priority to grow the business quickly."

About the survey

To gain a comprehensive understanding of the 2024 M&A landscape, we interviewed M&A leaders from 130 firms across Australia.

The results were compiled and analysed by Deloitte Access Economics and explored with experts from our M&A practice.

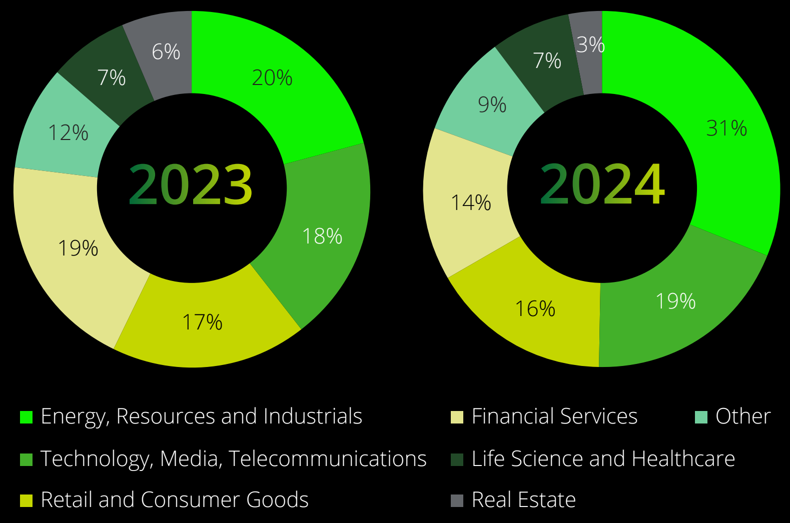
The Deal in Focus: Heads of M&A Survey provides data-driven insights into the trends, market dynamics, and strategic considerations driving deal making today and into the future.

130 firms interviewed

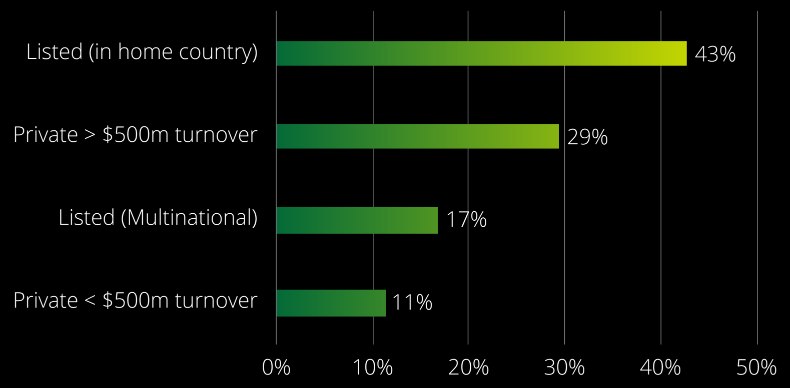
- 59% listed companies
- 41% privately held
- 61% of respondents had a team of fewer than 10 people.

Interviews held between 19 February and 15 April 2024.

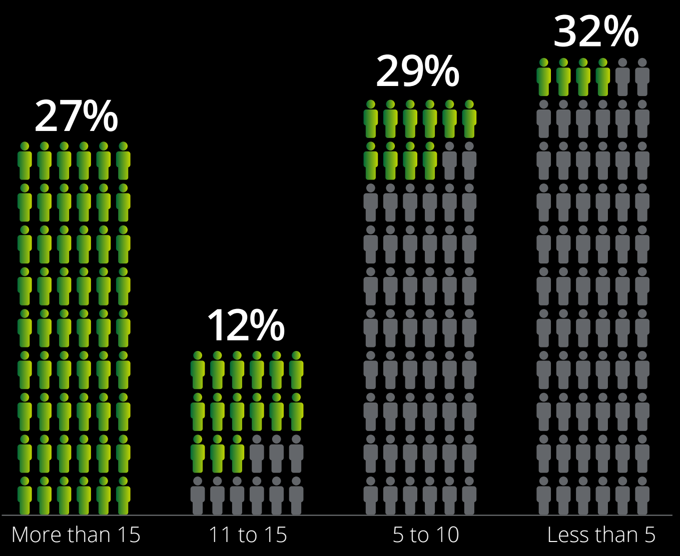
Industry breakdown



Market breakdown



Respondent's team size



The outlook

"Economic growth in Australia remains subdued, but an improved outlook in 2025 should provide a firmer foundation for M&A activity over the year ahead."

Cathryn Lee
Partner
Deloitte Access Economics

The outlook

Key takeaways

1 The economic outlook remains subdued, and interest rate uncertainty continues to influence the trajectory of M&A.

2 Deloitte Access Economics expects the Reserve Bank to start cutting rates in early 2025.

3 Real economic growth is expected to slow to 1.0% in the 2024 calendar year, before improving in 2025.

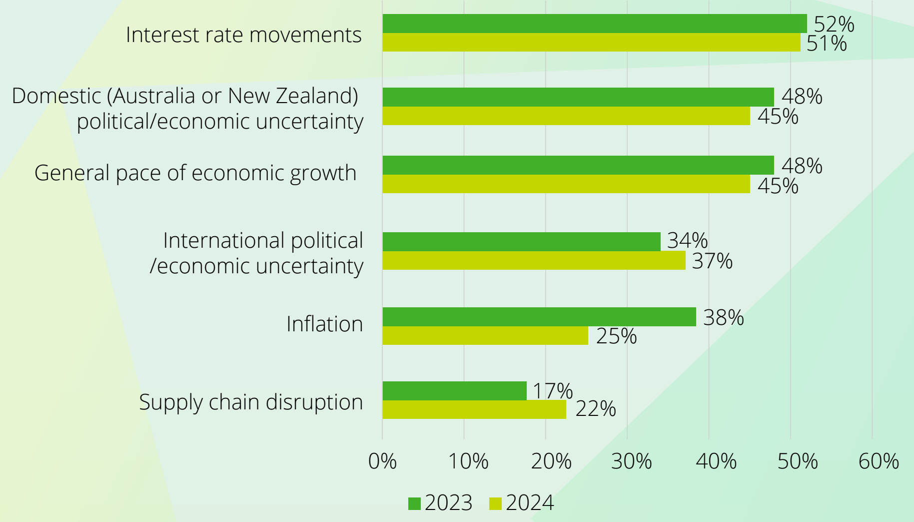
For the last two years, **interest rate increases** have caused economic uncertainty at home and abroad. While it's been more than six months since the last rate hike, the inflation fight isn't over and the labour market continues to outperform expectations. That means the outlook for interest rates, and the pace of Australia's economic recovery, remain uncertain.

Deloitte Access Economics expects the Reserve Bank to start cutting rates in early 2025. But debate continues over when rates will fall, and by how much – especially after inflation slowed by less than was hoped in the March quarter. Financial market predictions have swung wildly in recent months, and this year's survey results reveal the impact of this ongoing uncertainty on M&A.

Domestic political and economic uncertainty continues to influence deals, possibly magnified by proposed reforms to merger laws. Competition in Australia has measurably weakened over the past two decades, and the proposed reforms will seek to prevent M&A activity that restricts competitiveness. But it's important the reforms don't hamper legitimate and appropriate deals that drive productivity and economic growth.

The **pace of economic growth** in Australia is also affecting deal execution. Real economic growth is expected to slow to 1.0% in the 2024 calendar year as high interest rates weigh on households, capacity constraints grip the construction industry, and weak demand curbs business investment. Outside of the COVID-19 pandemic, 2024 is forecast to record the weakest pace of annual growth since the 1990's recession.

What economic factors are affecting your ability to successfully execute deals?



Note: respondents were able to select all options that apply.

The outlook

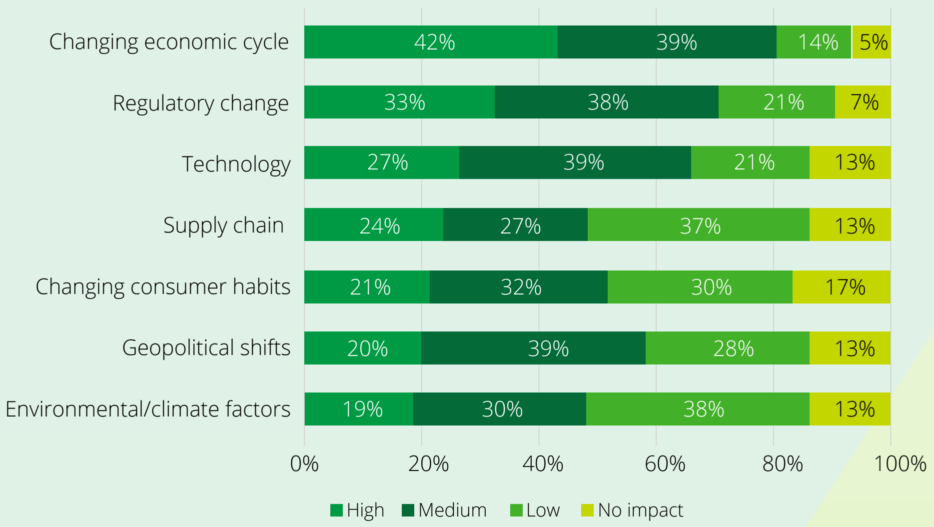
Inflation concerns have noticeably eased in this year's survey. While short-term challenges remain, annual inflation has fallen from a peak of 7.8% in December 2022 to within striking distance of the Reserve Bank's target band. Those components still above the target band mainly represent lagging indicators of inflation. The post-pandemic inflation outburst hasn't been squashed, but it's close.

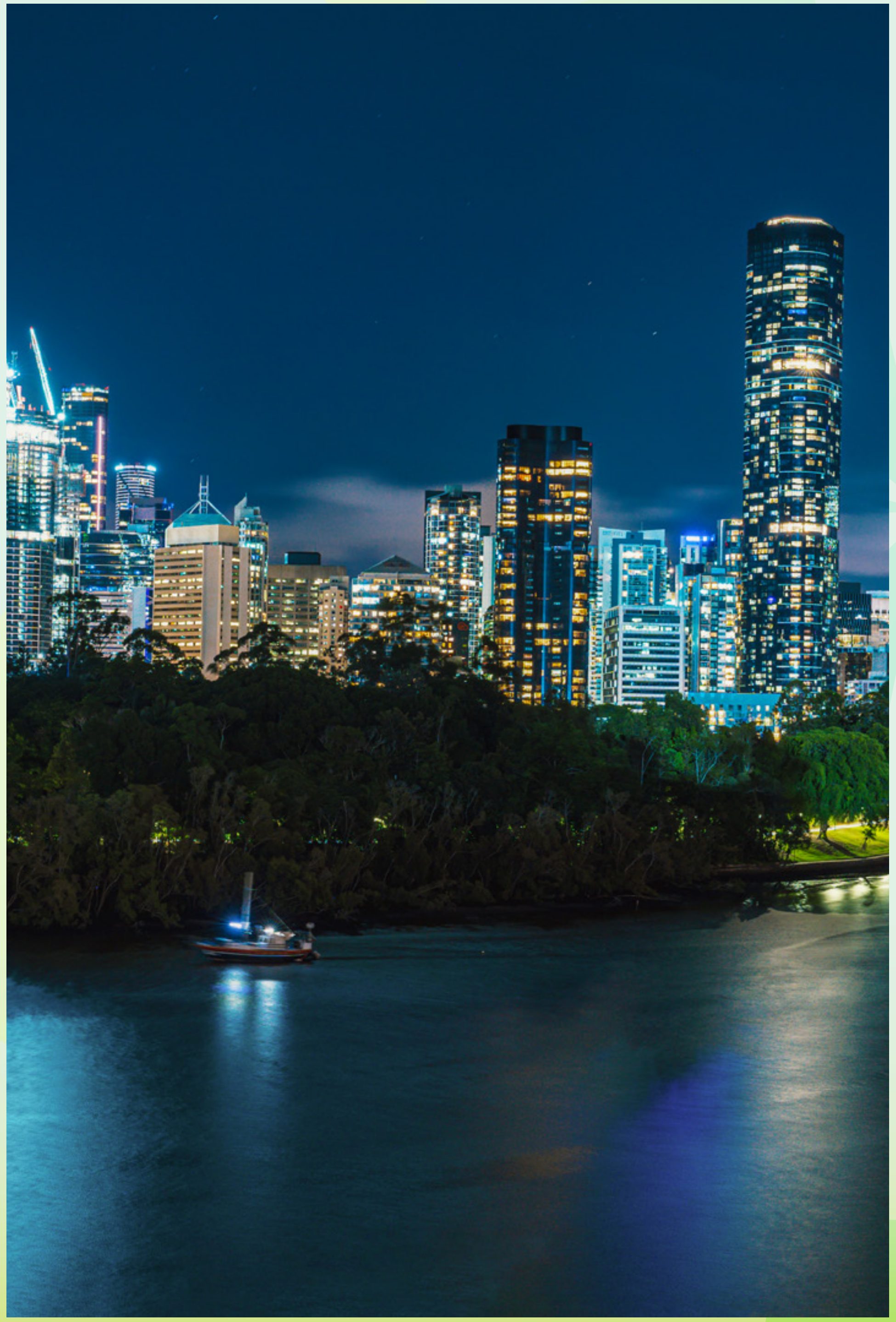
Global uncertainty is one of just two economic factors affecting a greater share of respondents than in 2023. The global economy has been more resilient than expected, but is yet to return to sustainable long-run growth. Central banks in advanced economies have largely retained a strong focus on locking in disinflation, even as forward-looking measures of activity suggest economic growth is under pressure. That said, with interest rate cuts having commenced in Europe, and the inflation picture improving in both the United Kingdom and the United States, lower rates are expected in major advanced economies ahead of any move in Australia.

China and India are experiencing diverging fortunes as structural headwinds weigh on China's outlook but bolster India's prospects. And the larger group of emerging markets continues to be resilient thanks to prudent policymaking and reforms. Overall, global growth is likely to remain subdued for at least six months before central banks can more comfortably balance growth and inflation.

M&A leaders have also expressed rising concerns around **supply chain disruptions.** Geopolitical risks are bubbling away, and ongoing conflicts in Ukraine and the Middle East are a persistent threat to supply chains and global growth – making the outlook highly uncertain.

What impact do you expect the following disruptive forces to have on your organisation's M&A activity in the next 12 months?





Theme 1: Deal activity

"Our M&A leaders are definitely an optimistic group and ready to transact after a quieter 2023, despite the economic headwinds."

Jamie Irving
Partner
Mergers & Acquisitions

Theme 1: Deal activity

You can't keep a good M&A leader down. In 2024, survey respondents remain plucky despite the economic slowdown and a relatively quiet year of deal activity.

While they face some stubborn challenges, most are optimistic about current conditions and what they mean for M&A. If the economic outlook improves, we expect deal activity to rise as cashed up corporates act on defensive strategies.

Over the next 12 months

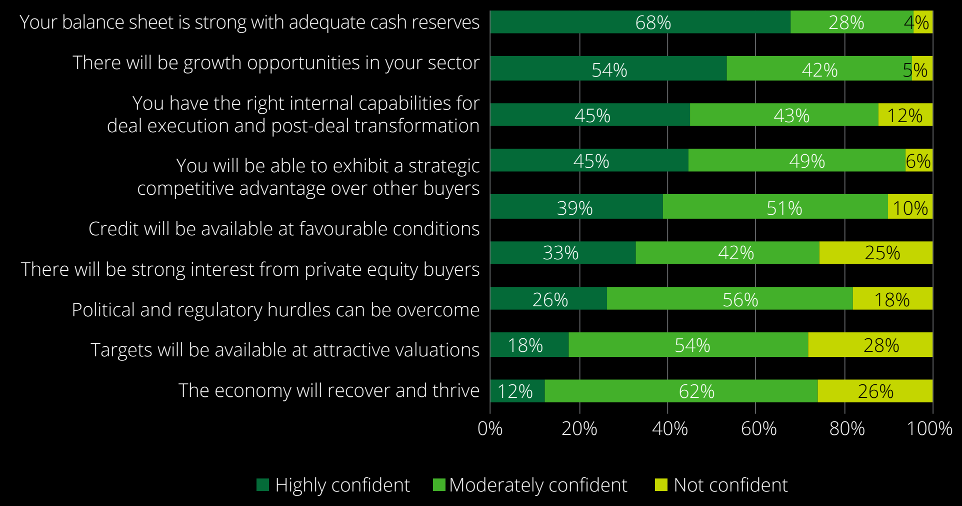
53%

expect to see or pursue a higher number of deals (up from 45% in 2023)

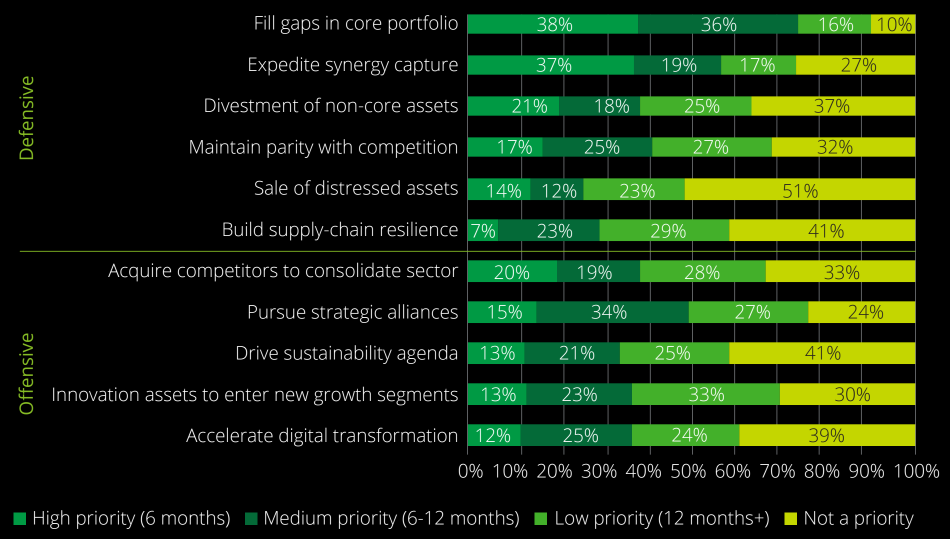
38%

expect activity to remain stable (down from 42%)

Confidence in factors that could influence M&A decisions over the next 12 months



Most important M&A objectives



M&A deals by volume (quarterly/annually)*

*Source: Deloitte Global M&A Sensing Tool, Capitol IQ, MergerMarket Deloitte Analysis.

Theme 1: Deal activity

On your marks
After a choppy 12 months for M&A leaders, our 2024 survey paints a surprisingly bullish picture. Compared with last year, a greater share of respondents expect a rise in deal activity, believe current conditions are favourable to M&A, and are at least somewhat confident in economic recovery.

These results show a clear appetite for growth with few to no internal barriers. Most respondents are confident in their balance sheets, their internal and strategic capabilities, credit availability and growth opportunities in their sectors. While even the most optimistic M&A leader would stop short of predicting a dramatic surge in deals, there are strong signs activity will soon pick up.

What's the catch?
Today's M&A environment is not without its challenges. The valuation gap is proving stubborn and is clearly hampering deal activity, with confidence falling in the availability of targets at attractive prices.

It's therefore unsurprising to see defensive M&A strategies front of mind in 2024. Organisations are focused on filling gaps in their core portfolio, and expediting synergies as they digest previous deals.

While sustainability and digital transformation are high on agendas, they aren't being consistently prioritised when it comes to M&A.

Though a smaller share of respondents are interested in divestments (33%) than 12 months ago (37%), this remains historically high as M&A leaders regularly review their portfolio.

No time like the present
Eyes will be fixed on interest rates. Cheaper capital, an ease in the cost of living and a boost in consumer sentiment will motivate both buyers and sellers to pursue more deals. Businesses may take inspiration from private equity: early movers are often rewarded for completing shrewd deals in challenging times, taking advantage of weaker competition and creating opportunities to maximise value in a strengthening economy.

Key takeaways

1. **There's pent-up demand for M&A**
   When economic certainty improves, deal activity will follow. Respondents are largely confident conditions will strengthen and are willing to move when they do.
2. **Activity slows amid target shortage, bid-ask spreads**
   Despite this sense of optimism, the valuation gap and a lack of available targets are impeding successful deals and will continue limiting M&A until external conditions change.
3. **Early movers could reap big rewards**
   Respondents are hopeful for the year ahead. When the economy picks up, those who have completed the right deals before competition heats up are poised to maximise their advantage.

Theme 2: Valuations

"The valuation gap has begun to narrow as discount rates have stabilised due to easing inflation and macroeconomic risks. However, dealmakers – both buyers and sellers – should remain vigilant on pricing. With a surge in M&A activity expected in FY25, competition is likely to intensify making it crucial to maintain a long-term perspective on valuation."

Dave Pearson
Partner
Mergers & Acquisitions

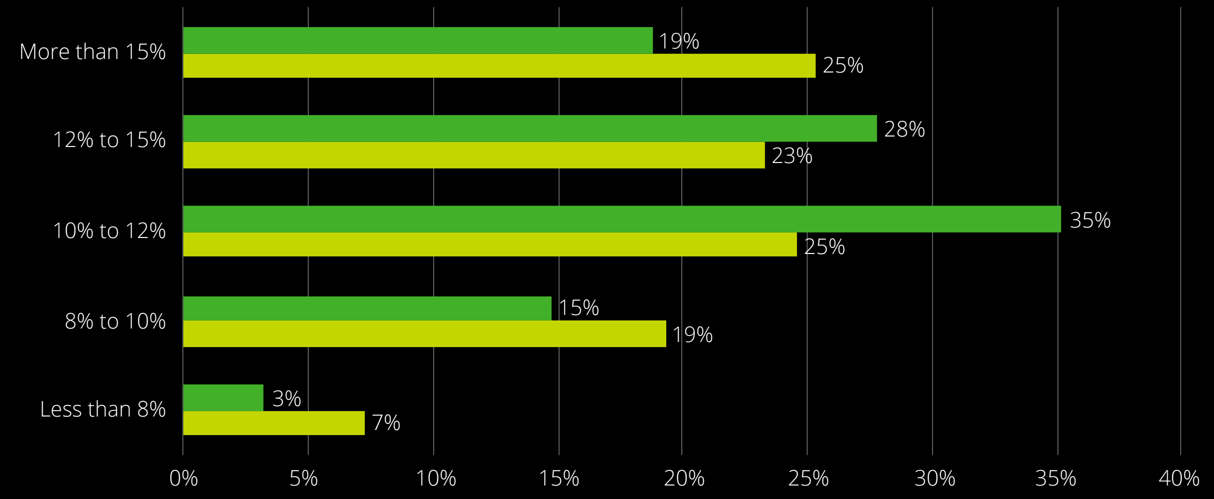
Theme 2: Valuations

The valuation gap between buyers and vendors remains a dominant theme for M&A in 2024.

But with inflation and interest rates stabilising and confidence in the economic outlook slowly returning – including the prospect of interest rate cuts – there are encouraging signs this stubborn challenge has begun to ease and will continue to do so in FY25.

Organisations should ensure their approach to valuations and broader M&A strategy reflect the current environment to capitalise on opportunities as they emerge.

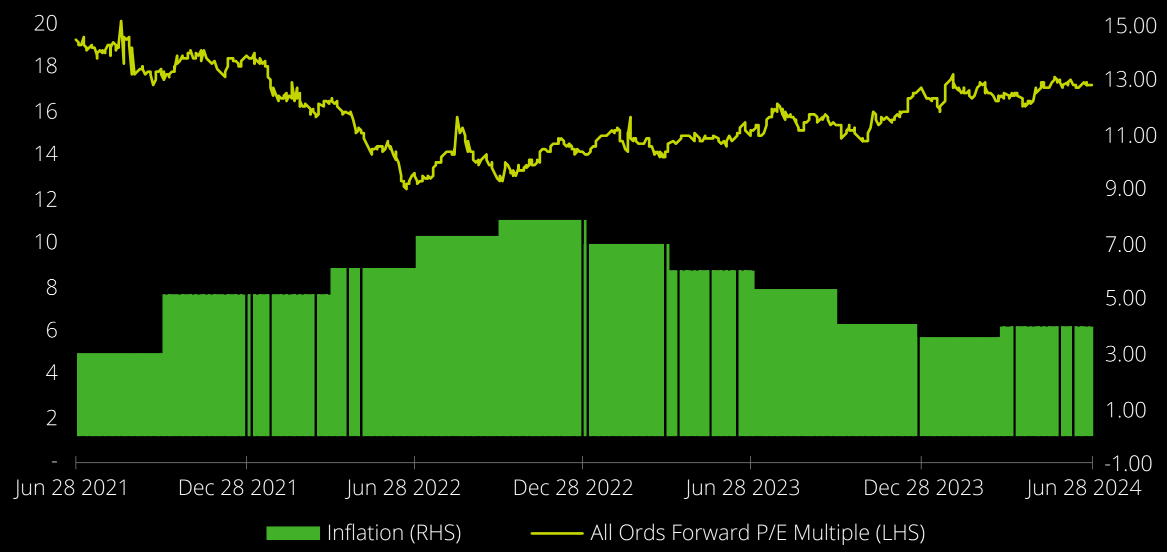
Target equity hurdle rate



Top 3 challenges to M&A success in the current economic environment

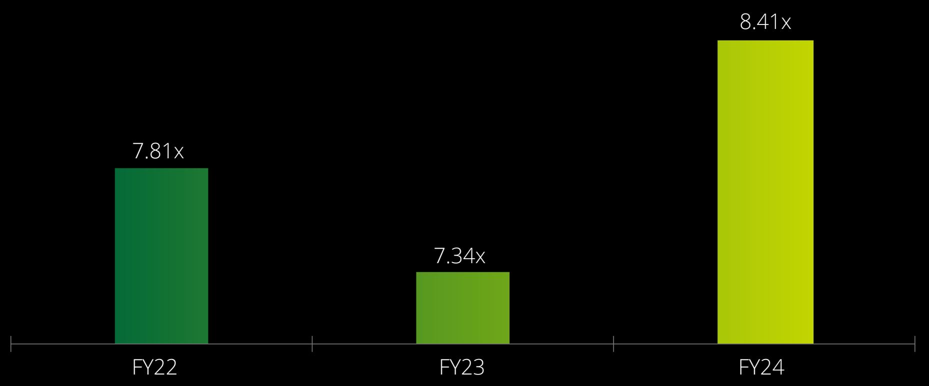
Note: Respondents selected their top five.

All Ords PE multiple vs inflation



Source: Deloitte ValueHub, CapIQ

EBITDA multiples – takeovers



Source: CapIQ Deloitte analysis

Theme 2: Valuations

The usual suspects

Our 2024 survey shows the gap between buyers and sellers continues to disrupt M&A. But while it remains the most common hurdle for M&A leaders, its influence appears to be shrinking.

Interest rates and inflation will continue to influence the valuation gap: rapid hikes from mid-2022 led many M&A leaders to raise their equity hurdle rate over the following year. While stability has improved, a greater share of respondents are now using a hurdle rate of more than 15% as they manage the high cost of debt. Inflation expectations (and the subsequent monetary policy responses) led to higher discount rates and lower earnings multiples observed in private and public markets. These pressures started to ease over FY24 as the economic outlook improved and equity markets recovered.

The weight of long-term capital that can patiently wait to bridge the valuation gap, such as from superannuation funds, removed some tension in M&A processes in the first half of FY24. This could explain why 49% of respondents experienced longer transaction timelines, which means valuations need to rapidly adapt to account for changing economic conditions, shifts in market pricing and fluctuating business performance.

Bridging troubled waters

To overcome the valuation gap and ensure successful deals (or avoiding value-destructive transactions), buyers and sellers need to be able to evaluate internal and external conditions in real-time when they change during negotiations. On the sell side, companies should have a deep understanding of the buyer's universe and be able to identify strategic buyers and clearly articulate – and quantify, where possible – the benefits available to them. This includes offshore buyers, who may have unique motivations to pursue cross-border M&A in Australia.

On the buy side, organisations need to be clear on why and how they pursue a deal, including the strategic and cultural fit, the return profile, potential synergies, ESG considerations and macroeconomic variables.

Key takeaways

1. **Relief in sight**
   The valuation gap has shown signs of narrowing in the second half of FY24 as return expectations have stabilised, debt markets are more accessible across the buyer spectrum, and boards and other stakeholders have more confidence in the economic outlook. This has started to flow through to EBITDA multiples implied in transaction pricing.
2. **Independent perspectives**
   Given the significant volatility in valuation metrics, and that some advisers may be predisposed to recommend proceeding with a transaction, seeking independent perspectives on valuation and pricing can enhance the diligence process and provide comfort to the board and other stakeholders.
3. **Be ready for opportunities**
   Organisations have been understandably cautious, maintaining a holding pattern in tough external conditions. But as valuation challenges ease, there's reason to shift into realistic optimism with a readiness to move early on the right deal.

Theme 3: Intellectual property

"IP drives value and differentiation in deals – don't miss the opportunity to boost your investment value and expedite returns."

Tim Heberden
Partner
Mergers & Acquisitions

Theme 3: Intellectual property

What's one of the fastest-growing areas of business investment in Australia?

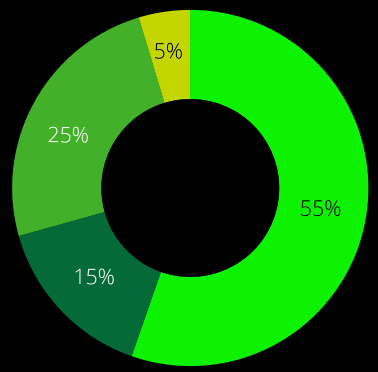
You guessed it, intellectual property (IP), derived from technology investment to create efficiencies and drive customer experience. Undisclosed intangible assets make up nearly half of ASX100[1] company's value, but our survey has revealed that when it comes to M&A, most respondents are missing significant value creation opportunities. Which means one thing: it's time to get smart about IP.

[1]Tim Heberden, Derek Minihane, "Intangible value contribution to the ASX 100", Deloitte, 22 Jan 2024 https://www.deloitte.com/au/en/services/financial-advisory/perspectives/intangible-value-contribution-asx-100.html

55%

don't explicitly consider the potential value of IP assets in the M&A process.

Do you explicitly consider current and potential value of IP or intangible assets when acquiring or divesting?

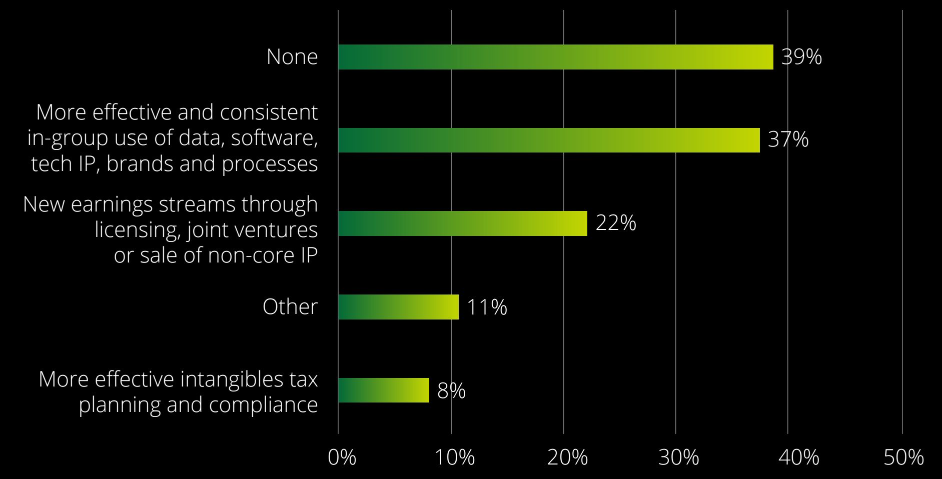


- Not considered explicitly (other than as part of overall cash flows, returns, multiple, etc)
- Yes, based on diligence for on-balance sheet intangible assets
- Yes, based on diligence of internally generated and capitalised intangibles
- Other

39%

don't consider value creation from IP in M&A.

IP value creation activities considered during due diligence



Theme 3: Intellectual property

Getting in touch with your intangibles

The strength of IP investment reflects the rapid pace of tech innovation, with businesses integrating gen AI and other productivity tools, adapting to hybrid working, and managing cyber threats.

Despite most respondents not explicitly considering future IP value in transactions and almost half not considering IP in due diligence, many respondents do look at new IP-derived revenue streams (~45%) and review IP during due diligence (60%)

These results highlight that many organisations are missing a significant opportunity to create value through strategic management of IP assets in the M&A process and in post-deal integration.

So, how can this be done?

TIP

Provide a matrix-style overview for buyers, offering a clear and concise view of IP assets, how they link to the business, and their present and future value.

Understanding the value of your core IP

When it comes to showcasing your core IP and value drivers, data rooms offer a seamless solution by providing a secure platform to organise and store sensitive documents. First, you must know what IP you have and how it drives business value and differentiation. Once you understand that, you can more effectively leverage the data room so sellers can focus buyers on the valuable IP, demonstrate the seller is in command of their IP and its links to the business, and increase buyer confidence.

Post-deal value creation for buyers

The post-deal phase focuses on smooth integration of acquired assets and operations, allowing the buyer to fully leverage the value of the acquired intangible assets. It requires an understanding of what IP drives the business and how it links to differentiation so you can get the most out of your investment.

Post-deal integration is crucial for maximising M&A success. It involves coordinating and aligning processes, systems, teams, and cultures to drive synergies, enhance efficiency, and mitigate risks.

Key takeaways

1. **Buyers and sellers are missing out on value opportunities**
   IP is becoming a larger part of the value proposition for companies in most industries and therefore needs to be given greater attention in the M&A process.
2. **Know your IP and how it drives value**
   Understand your organisation's IP and intangibles and how they drive value. Do this early and you will sell your business for more. Relying solely on multipliers may overlook significant value.
3. **Have a commercial mindset on intangibles**
   Consider IP asset value in acquisitions and divestments, throughout the M&A process and during post-deal integration, to identify and capitalise on opportunities to create value through strategic management of IP assets.

Theme 4: Capital allocation

"The sentiment is clear: after deleveraging in tough conditions, M&A leaders are actively seeking to deploy capital towards growth opportunities with greater appetite for inorganic growth strategies."

Aleks Lupul
Partner
Mergers & Acquisitions

Theme 4: Capital allocation

In step with rising expectations of deal activity and optimism in Australia's economic recovery, more than half of surveyed M&A leaders plan to prioritise growth over the next 12 months.

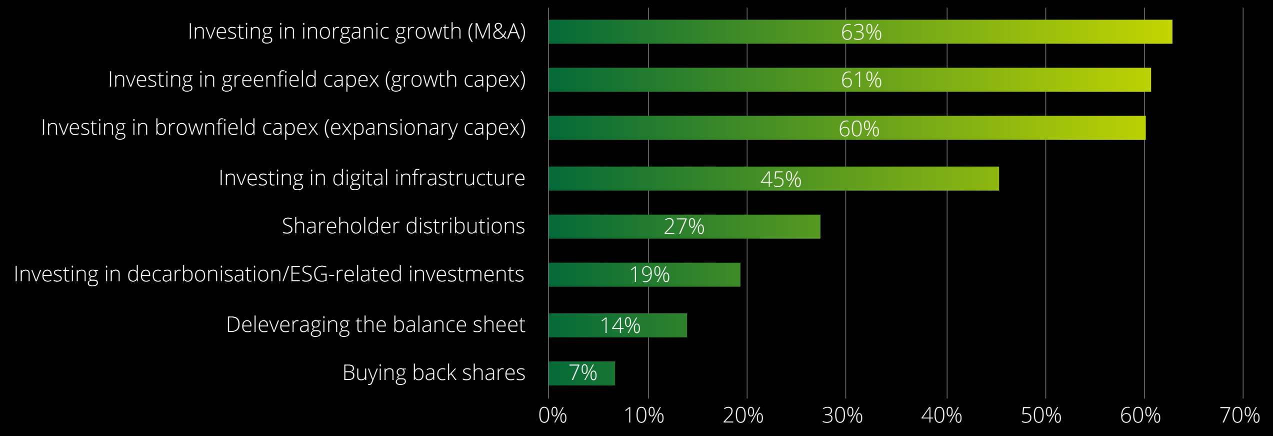
Investment in digital infrastructure is also on the rise, while decarbonisation and other ESG considerations become entrenched in broader strategy. After deleveraging for much of 2023, respondents have existing capital to deploy and appetite to raise new capital for the right deal.

Respondents are moderately to highly confident in the:

Strength of their balance sheet (96%)

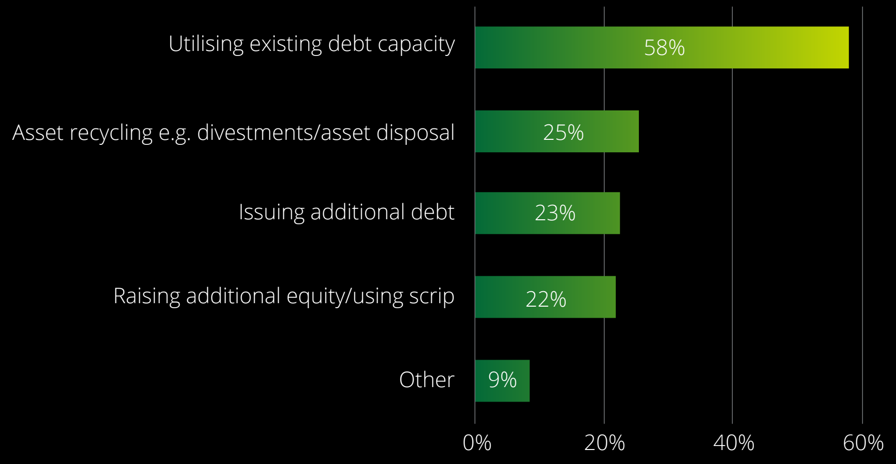
Growth opportunities in their sector (95%)

Top capital allocation priorities to drive shareholder value growth in the next 12 months



Note: Respondents were asked to select their top three.

How do you intend to fund your capital allocation priorities over the next 12 months?



66%

see technology disruption as a medium to high risk influencing the drivers of M&A.

Theme 4: Capital allocation

Growth takes centre stage

More than half of surveyed M&A leaders plan to allocate capital to growth in the next 12 months, highlighting the threads of optimism we've seen throughout this year's survey. It's an encouraging sign after two years of slowing deal activity, interest rate uncertainty, a subdued macroeconomic outlook and geopolitical tensions – conditions that forced organisations to deleverage their balance sheets. If conditions remain stable, we expect risk tolerance to steadily rise as companies eye growth and long-term value creation for shareholders.

Riding the digital wave

While capital allocation priorities vary between organisations as they solve unique challenges and execute on their strategy, investment in digital transformation is clearly on the rise, with nearly half of respondents ranking it within their top three priorities. This is becoming a key driver of broader growth strategies, even in traditional asset classes, as organisations explore the evolution of business models through greater adoption of digital and rapidly rising relevance and practical application of artificial intelligence.

The ESG evolution

These results may tempt the conclusion that ESG issues are sliding off the radar in a tough economic climate. But with our 2023 survey Capital Allocation and Resilient Portfolios Decarbonisation showing ESG considerations are increasingly central to value creation within a broader strategy, it's more likely ESG is shifting from a detached driver of investment to a key factor in all capital allocation decisions, and therefore in M&A.

Capitalising on funding capacity

Having strengthened balance sheets over the past 12 to 24 months, many organisations have the dry powder to fund their reinvigorated appetite for growth. They will continue to favour more conservative funding in the current environment and use existing debt capacity, but with the ASX reaching all-time highs, we may see more companies using scrip to finance M&A activity.

Key takeaways

1. **Going for growth**
   M&A leaders are ready and willing to deploy capital to pursue growth and deliver value for shareholders, provided conditions remain stable in the year ahead.
2. **Digital infrastructure**
   Capital allocation towards digital infrastructure is a rising imperative, even in traditional and asset-intensive sectors, as organisations explore strategy, AI and other opportunities.
3. **From sideshow to main event**
   Survey results suggest ESG is no longer the new kid on the block. Organisations are embedding these considerations into capital allocation decisions, rather than treating them as siloed investments.

Theme 5: Environmental, social & governance (ESG)

"With an ESG lens, decision-makers are now identifying new growth sources and better anticipating future constraints."

Rochel Hoffman
Partner
Mergers & Acquisitions

Theme 5: ESG

There’s been a monumental shift in how corporate Australia views ESG. Once a singular topic, ESG is increasingly seen as a categorisation for sub-topics and themes.

From responding to energy transition headwinds and tailwinds, to meeting evolving customer demands for sustainable products, to forming trusted relationships with local communities, ESG is now integral to business strategy and growth. But our survey highlights there’s still a misalignment between M&A, strategy, and sustainability practitioners about what falls under ESG and how it’s influencing M&A activity.

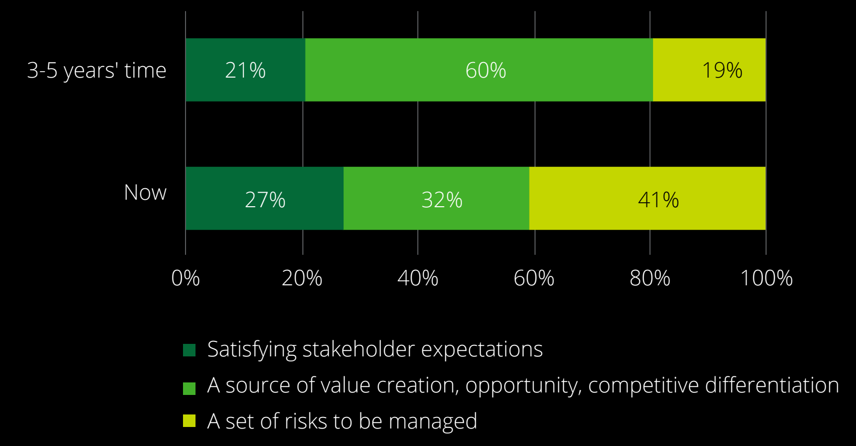
32%

consider M&A as a lever to achieve net-zero or decarbonisation commitments.

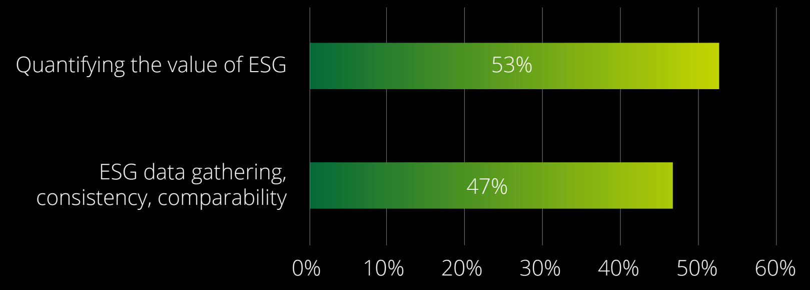
29%

have made acquisitions/divestments to benefit from the energy transition or reduce exposure to fossil fuel-related industries.

How is ESG dealt with in your M&A strategy?



Top two ESG pain points



31%

have withdrawn from a transaction following ESG due diligence, up from 18% in 2023.

Theme 5: ESG

Value creation

Our survey reveals that 32% of respondents view ESG factors as a source of value creation in M&A strategies, with this expected to increase to 60% in 3-5 years. Interestingly, in our 2022 survey, 63% anticipated ESG to be a source of value in 3-5 years, but the latest results deviate from this projection. However, we're consistently witnessing ESG-driven deals – although some, like the energy transition, are now being reclassified as core commercial investments – so this figure feels underestimated.

While ESG is increasingly a key influencer in organisational strategic portfolio reviews, there's still a misalignment between M&A, strategy, and sustainability practitioners about what falls under the ESG category and the extent ESG is actually influencing M&A activity. With an ESG lens, decision-makers can identify new growth sources and anticipate future constraints, taking into account factors like revenue, costs, customer preferences, and regulations in evolving markets.

The pain points impacting valuations

Depending on industry, sector, and value chain position, our survey reveals both common pain points and more complex responses to ESG throughout the M&A life cycle. Quantifying value and data gathering emerge as the top two challenges. This helps explain why 31% of respondents don't consider ESG in pricing or valuation, while the remaining 69% incorporate it either quantitatively or qualitatively.

Differentiating between ESG metrics that affect valuation and those that provide transparency on overall ESG performance remains a persistent obstacle. However, as understanding of ESG metrics improves, we can anticipate greater consistency in how ESG impacts valuations.

Climate quantification goes mainstream

Starting from 1 January 2025, businesses must publicly disclose the financial impacts of climate-related risks and opportunities in their audited financial statements. This requires a more sophisticated and quantified approach to sustainability in M&A. Corporate M&A teams must collaborate with sustainability teams and upskill to assess climate risks, quantify financial impacts of acquisitions/divestments. While carbon liability is common, the cost of physical climate risks should not be overlooked, especially in sectors like agriculture and food and beverage.

Key takeaways

1. **No longer a category of one**
   We're witnessing a splintering of ESG as a category. Once a singular topic, ESG is increasingly seen as a categorisation for sub-topics and themes. The energy transition is an example, providing a commercially driven investment thesis in ER&I sector.

2. **The due diligence challenge**
   ESG continues to feature in due diligence, from both a risk and opportunity perspective, however the challenge continues to lie in the financial quantification of ESG impacts and how to embed it in the revenue and cost assumptions underpinning valuation models.

3. **Get ready for mandatory reporting**
   M&A teams need to deeply understand potential ESG risks and opportunities associated with an acquisition to prepare for mandatory climate reporting which kicks off on 1 January 2025.

Industry spotlight: Financial services

"Competition is fierce. The key is proving you're the advantaged acquirer and being ready to go."

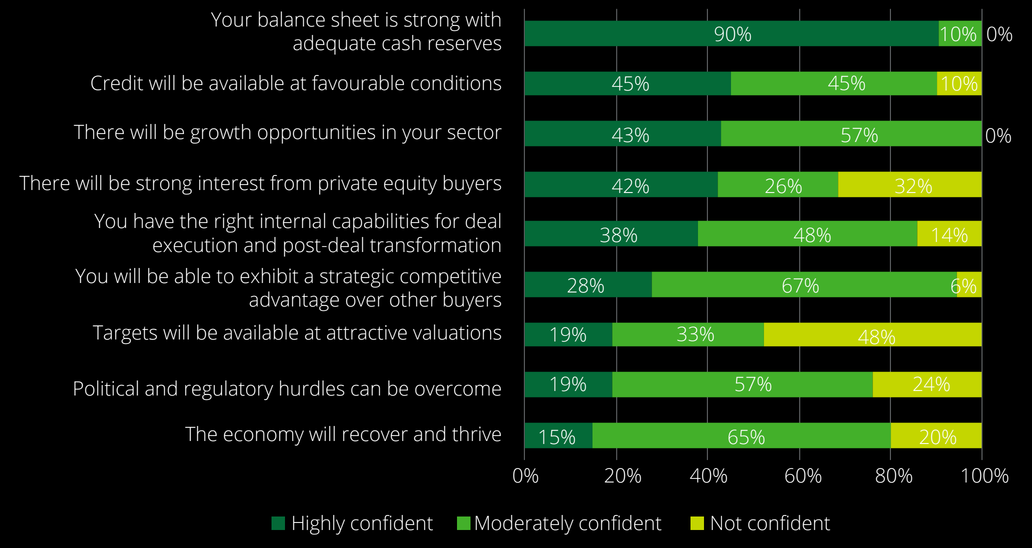
James Chown
Partner
Financial Advisory

Industry spotlight: Financial services

Despite squeezed margins, intense mortgage market competition for banks, non-bank lenders' credit underperformance risk and rising funding costs due to the RBA's hiking cycle, our survey reveals M&A leaders in financial services are cashed up, confident and looking to double their deal volumes.

Of course, higher interest rates in 2023 resulted in record profits for major banks, and policy settings are driving sustained growth in Australia's superannuation funds. So, they've got a ticket to play in M&A, now it's a matter of where.

Confidence in factors that could influence M&A decisions over the next 12 months



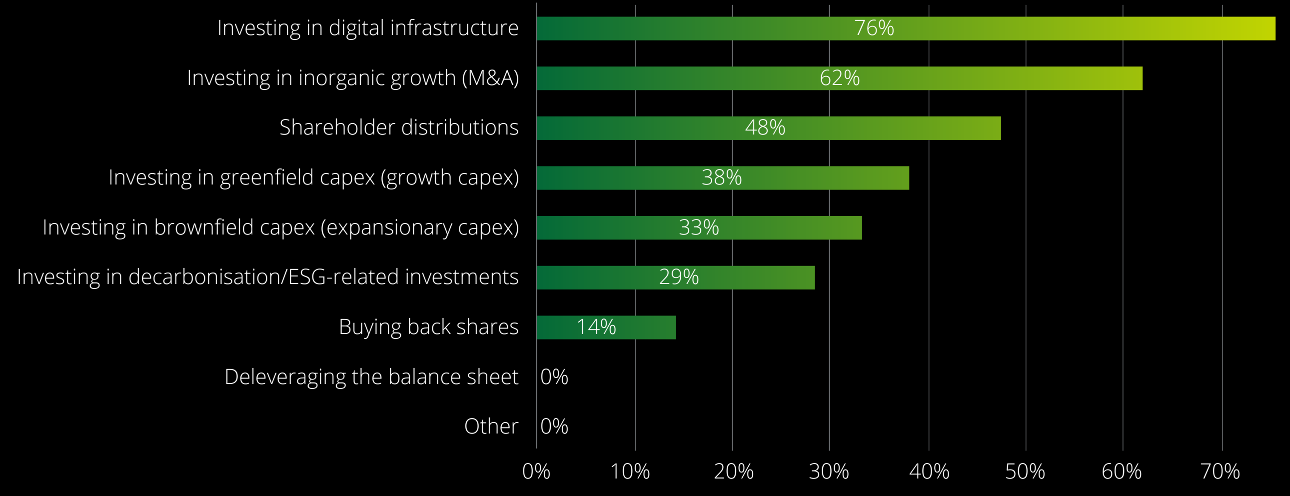
Note: Respondents were able to select all options that apply.

Double deals

48%

expect to see or pursue a higher number of deals over the next 12 months (up from 22% in 2023)

Top capital allocation priorities to drive shareholder value growth in the next 12 months



Note: Respondents were asked to select their top three.

Of those pursuing deals

86% are interested in acquisitions

62% in alternatives

33% in divestitures

Industry spotlight: Financial services

All cashed up and nowhere to grow
An incredible 90% of M&A leaders surveyed from financial services are highly confident their balance sheets are strong and cash reserves good (compared to 68% survey wide). This confidence is flowing through to deal-making plans in the next 12 months, with 48% (double last year) expecting deals to increase and 43% expecting the same.

However, money and strong balance sheets can't guarantee transaction success in a market with limited avenues for organic growth and fierce competition for inorganic opportunities, including strong private equity interest.

Pinpointing growth engines
To address this, organisations should focus on identifying capability gaps and exploring strategic acquisitions or partnerships to gain access to new customers, technology, products, or capabilities.

In our survey, 86% expressed interest in acquisitions and 62% considered M&A alternatives. Digital infrastructure is a key priority, with over three-quarters of leaders prioritising it in their top three capital allocations for the next 12 months, compared to 45% across all industries.

However, when it comes to sealing the deal, only 28% of M&A leaders feel highly confident in demonstrating a strategic competitive advantage over other buyers.

How to seal the deal
To increase the chances of transaction success, organisations should take a structured approach by carefully evaluating potential opportunities that align with strategic imperatives and clearly articulating the value proposition of proposed transactions to stakeholders.

Key strategies and considerations for becoming the advantaged acquirer include clearly defining the key strategy and strategic imperatives, assessing readiness and ability to be the most advantageous acquirer, and tailoring messaging to different stakeholder groups.

Communication with shareholders should include outlining the full cost, expected synergies, and the timeline for earnings per share (EPS) accretive if buying, or explaining the rationale behind the price and the use of proceeds if selling. Close collaboration with your investment banks or advisers is also important to analyse the various components of the deal and understand their impact on each stakeholder group.

Key takeaways

1. **Confidence and cash drive increased activity**
   M&A leaders in financial services are confident in the strength of their balance sheets and cash reserves, which is driving their plans for increased deal-making in 2024 and beyond.
2. **Competition for growth is fierce**
   In a highly competitive market, M&A leaders are looking to fill capability gaps through strategic acquisitions or partnerships to access new customers or technology.
3. **Be an advantaged acquirer for deal success**
   To be a successful acquirer, organisations need to have a clear strategy, understand their capabilities and gaps, and effectively communicate their value proposition to stakeholders.

Industry spotlight: Energy, resources & industrials

"Australia must press on with the energy transition and drive a clear pathway that responsibly balances technological, social, environmental, and economic considerations."

Marc Hofmann
Partner
Mergers & Acquisitions

"Australia plays an outsized role in providing sustainable energy solutions and the critical minerals required for the world's energy transition. Our unique role is driving exciting M&A opportunities."

Bernadette Cullinane
Partner
Energy, Resources & Industrials Industry Leader

Industry spotlight: Energy, resources & industrials

Australia's energy, resources and industrials (ER&I) sector remains optimistic about the economic environment and its impact on M&A. Its two subsectors are wrapped in an impassioned tango: demand for sustainable fuel solutions is soaring, but so is our dependence on critical minerals to satisfy it.

Mining and metals companies are weathering short-term pricing and geopolitical uncertainty, encouraged by the value to be gained from the energy transition. In power, utilities and renewables, businesses are buoyed by the energy supply and demand equation and the corresponding need to transform the sector.

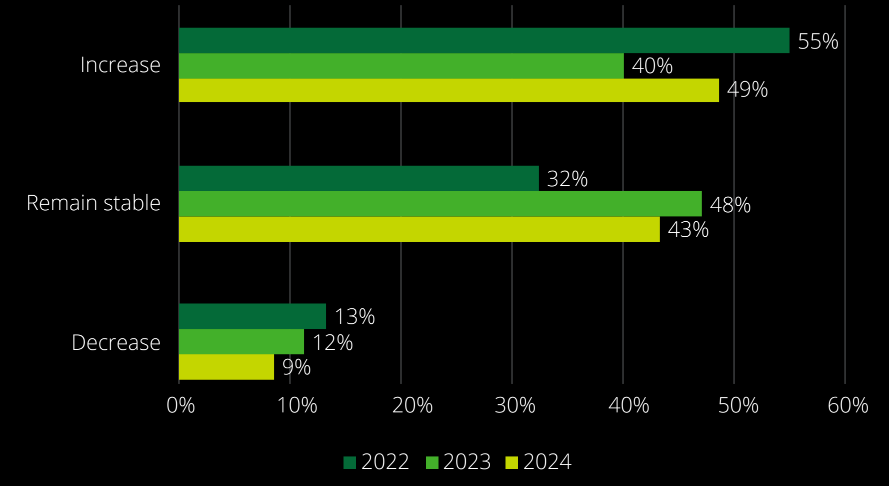
89%

of respondents believe economic conditions support M&A activity, but...

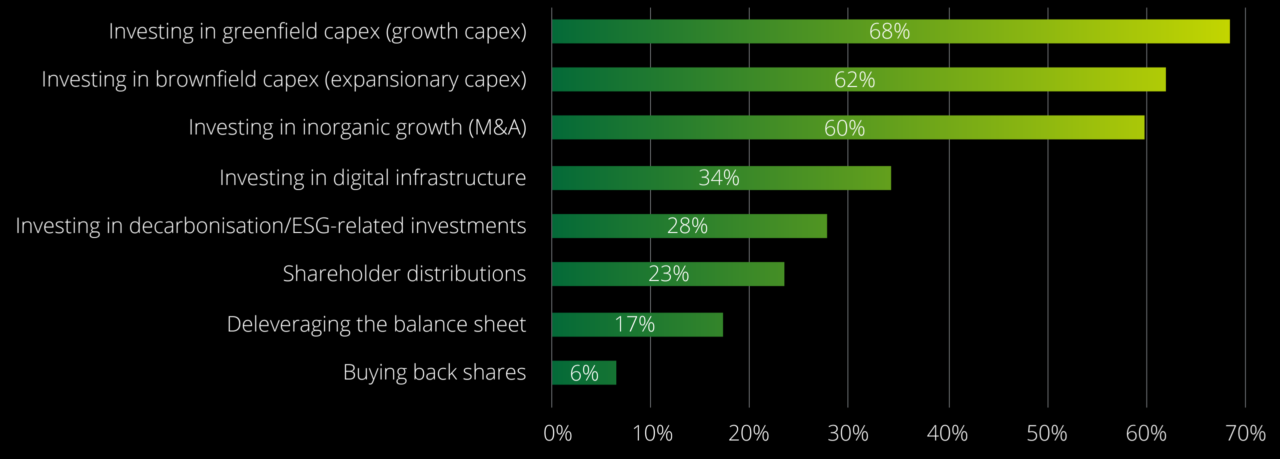
53%

say international political and economic uncertainty is affecting deal success.

Do you expect the number of deals you see or pursue to change over the next 12 months?



In the next 12 months, what are your top three capital allocation priorities to drive shareholder value growth?



47%

have withdrawn from a transaction process following ESG due diligence (31% survey wide).

Mining & metals

The atmosphere's electric
The past year has been unexpectedly volatile in mining and metals, but the energy transition will continue to drive deals: almost 9 in 10 ER&I respondents say conditions are favourable to M&A, and just 9% expect to pursue fewer deals in the year ahead.

Coal continues to change hands as established miners shift to more ESG-friendly portfolios, attracting interest from domestic and international buyers focused on yield and seeking security of supply. Shareholders in the major sellers want to see capital from these sales invested in the critical minerals needed to fuel the energy transition – such as copper, lithium and cobalt – but with discipline and a view to long-term returns.

This is driving high demand for copper assets, and buyers are willing to consider cross-border M&A to capitalise on more significant opportunities overseas. As for lithium, while prices plummeted amid China's economic slowdown – along with cooling interest from battery manufacturers – it remains an attractive long-term play for established miners.

Gold and rare earths
The sector is seeing gold assets consolidated as smaller companies look to capitalise on synergies and increase economies of scale and operational efficiencies to drive better shareholder returns.

Rare earth minerals assets are also seeing increased activity given their use in electric vehicles and a wide range of industrial, commercial, aerospace and military applications. Australia is a major producer of rare earths, while processing is mainly done in China. Significant government incentives in the United States for both mining and minerals processing could change the equation and increase its role in this space.

Striking deals or striking out?
Nearly half of ER&I respondents withdrew from a transaction following ESG due diligence, driven in part by the battery manufacturers discouraged by the complexity and potential footprint of mining operations. And despite some fossil fuel producers recently abandoning or diluting previously announced decarbonisation targets, this year's survey results show ESG continues to have a major influence on M&A.

Key takeaways

1. **Three threads of deal activity**
   The energy transition will continue driving deal activity as established miners divest coal assets and bid on high-quality projects critical to the energy transition. Meanwhile, gold miners will continue to consolidate.

2. **ESG performance is now a ticket to play**
   Vendors need to have an ESG story when going to market. This is now non-negotiable and increasingly worthy of investment to widen the bidder universe.

3. **Competing for quality assets**
   Australia's best-quality assets are hotly contested, and buyers should look to capitalise on unique synergies. Successful deals hinge on an orderly transition of assets, including the people who best understand the landscape – particularly for inexperienced inbound buyers.

Power, utilities & renewables

Renewables lighting up

As the energy transition gains momentum, deal activity is poised to rise in the PU&R sector – particularly in storage and early-stage development assets.

Recent deals have spurred interest in consolidating for scale, potentially driving another wave of aggregation. But the valuation divide still hinders M&A, and while recent deals have reset sellers' expectations, very few buyers will view them as sound precedents. To obtain a competitive advantage, prospective investors will need to think laterally in the way they approach M&A opportunities.

Major green plays remain limited, so investors may look to 'olive' assets that bridge black and green energy solutions. Victoria's recently legislated offshore wind energy targets will motivate partnerships with Tier 1 operators that can deliver these solutions, and businesses may scale up to become viable suppliers as the timetable clarifies.

Cross-border M&A and the 2030 dilemma

Globalisation and increased access to international markets are driving cross-border M&A activity, and we remain bullish on the role of foreign capital and innovation to help solve Australia's energy transition dilemma. Given the valuation divide, organisations that can explore innovative tax structures and access lower-cost capital will be differentiated in competitive bids.

Australia is unlikely to achieve 82% renewable energy production by 2030 without substantive change. The jury's out on whether recent foreign investment rules will serve as a carrot or stick to international players given the current geopolitical environment.

Energy storage and established solutions

While offshore wind and REZs make headlines, energy storage will be increasingly important to align on-demand power with intermittent sources like wind and solar. We expect accelerated development of battery energy storage systems (BESS) and interest in pumped hydro energy storage (PHES) solutions, while recognising the time and cost challenges in large projects like Snowy Hydro 2.0. Labour shortages and rising material costs are emerging as this sector's Achilles heel in achieving the required rates of return to support large-scale capital investment.

Key takeaways

1. **Government points the way**
   With the energy transition well underway, government policy and incentives will influence where investment dollars are spent. Foreign capital should be welcomed, with appropriate guardrails, to transform our economic base and complement ER&I capabilities: we need to balance the protection of our critical infrastructure with our dependence on overseas investment.

2. **Meeting scarcity with bravery**
   Opportunities are harder to come by after a round of extensive M&A for large-scale operational targets. Innovative targeting and collaboration will be of rising importance.

3. **Global forces at play**
   China's role in our domestic energy transition will continue to impact M&A. Its influence on prices for many critical minerals, such as lithium, means it remains an architect of our future success as a mining jurisdiction.

Industry spotlight: Consumer

"Businesses that offer a differentiated proposition and deliver value to consumers remain highly attractive in today's M&A landscape."

Louise Heath
Partner
Mergers & Acquisitions

"M&A in this sector needs to be pragmatic, disciplined and aligned with core strategy. Until conditions improve, M&A leaders must focus on deals that bring immediate value to their business."

Victoria Brilliant
Partner
Mergers & Acquisitions

Industry spotlight: Consumer

The retail and consumer goods industry is bearing the brunt of Australia's inflation fight.

High interest rates and cost of living pressures are impacting household spending, and retail turnover per capita is at its lowest since September 2021. Still, survey respondents from this sector are only somewhat less optimistic than others about economic conditions. Purchasing power may slowly restore in the second half of 2024 with Stage 3 tax cuts, modest growth in real wages, and a more stable interest rate environment.

42%

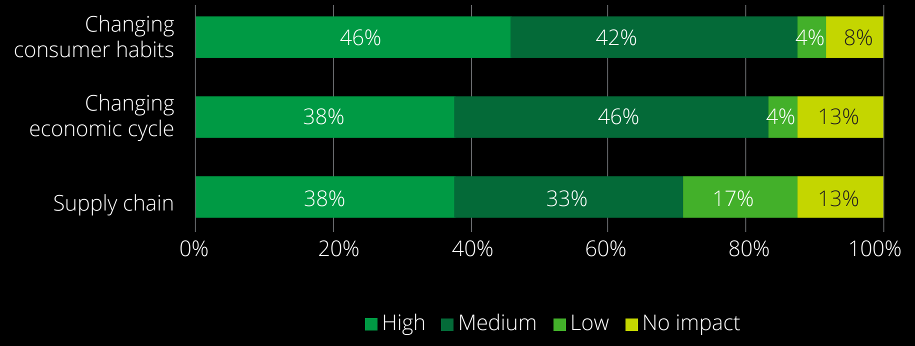
expect to see or pursue more deals over the next 12 months, while 50% expect activity to remain stable.

Top 3 M&A objectives*

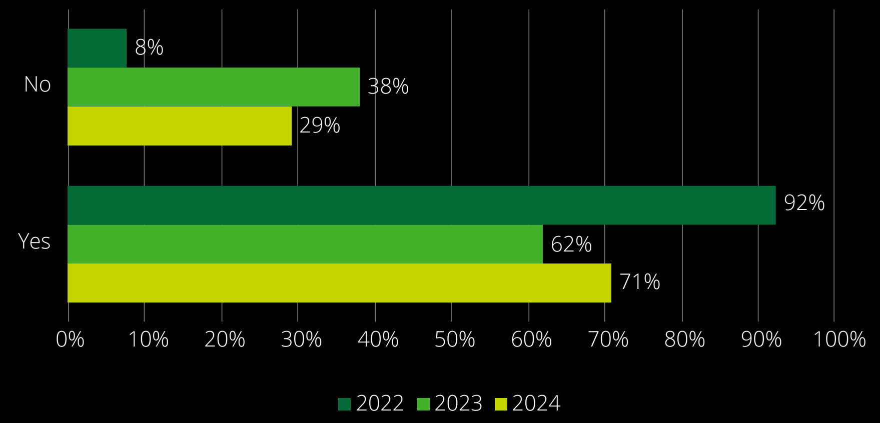
1. Expedite synergy capture
2. Fill gaps in core portfolio
3. Maintain parity with competition

*Ranked by % of respondents selecting the objective as a medium or high priority.

Top 3 disruptive forces or risks impacting the drivers of M&A



Are current economic conditions supportive of M&A activity?



Industry spotlight: Consumer

The discipline dividend
Much like its customers, the retail and consumer sector has lost its appetite for impulse buys. Value is the name of the game as businesses grin and bear through weaker economic conditions and more conscious consumer spending. The sector recorded the lowest share of respondents expecting to pursue more deals as businesses increasingly shift their focus from revenue growth to the fundamentals.

But with interest rates stabilising and uncertainty easing, our 2024 survey results have silver linings for M&A leaders – perhaps even cause for cautious optimism. Organisations are taking a disciplined approach to M&A, willing to pursue deals that bring clear and immediate value in line with their core business strategy. And as leading brands have shown, clarity on core strategy, strong differentiation and customer loyalty can drive incredible success against the grain.

Connecting with the conscious spenders
With consumers increasingly mindful of where and how they spend, businesses' financial performance depends on strong branding and differentiation that give customers a reason to continue buying their products. ESG considerations continue to be a source of differentiation, from demonstrating sustainable supply chains to ethical profit-sharing initiatives.

This in turn relies on an unwavering understanding of their customer base, and a shrinking reliance on the increasingly expensive pathway of acquiring new customers for growth.

A challenging checkout
Though green shoots are emerging, challenges remain for M&A leaders. The valuation gap continues to cause headaches, and uncertain demand forecasts aren't helping buyers and sellers see eye to eye. But as the market stabilises, these pain points are easing.

Traditional cross-border M&A has dwindled as businesses shy away from risky expansions, no longer keen to roll the dice on growth in new markets. But these transactions aren't entirely off the table: M&A leaders are willing to transact through joint ventures and other alternative pathways if it lowers risks and helps them successfully execute their strategy.

Key takeaways

1. **Disciplined deals**
Despite a softer M&A outlook than other sectors, businesses are still open to the right deal as part of a disciplined, strategically aligned approach to M&A. We expect activity to remain defensive until consumer spending and macroeconomic conditions improve.

2. **Back to core**
Leading brands are proving businesses can thrive in a challenging economy. Others can follow suit by getting clarity on their core business, differentiating from competitors and bringing a compelling offering to their customer.

3. **Pathways to M&A**
Bid-ask spreads and uncertain demand forecasts continue to cause headaches, but these pains are easing as the market stabilises. Further, joint ventures and other alternative pathways continue to help businesses manage deal risks and execute their strategy.

Industry spotlight: Technology, media & telecommunications

"While market conditions remain challenging, the TMT sector is continuing to see opportunistic M&A and businesses pursue growth opportunities beyond our borders."

Jonathon Gould
Partner
Mergers & Acquisitions

Industry spotlight: Technology, media & telecommunications

A wave of innovation is driving growth in the technology, media and telecommunications (TMT) industry.

Digital transformation is high on agendas, and businesses are integrating generative AI and other productivity-boosting technologies into their operations. But a weaker global outlook and higher interest rates have weighed on investment, prompting significant layoffs in recent years. An uplift in the economy could open the floodgates on deals; until then, TMT organisations are making the most of cross-border and opportunistic M&A.

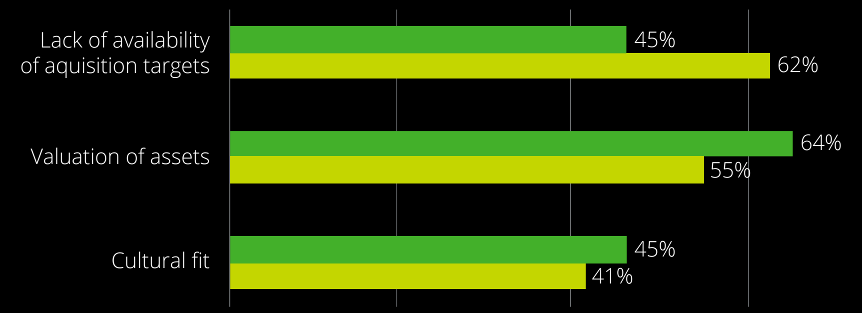
72%

expect an increase in deals over the next 12 months (53% survey wide)

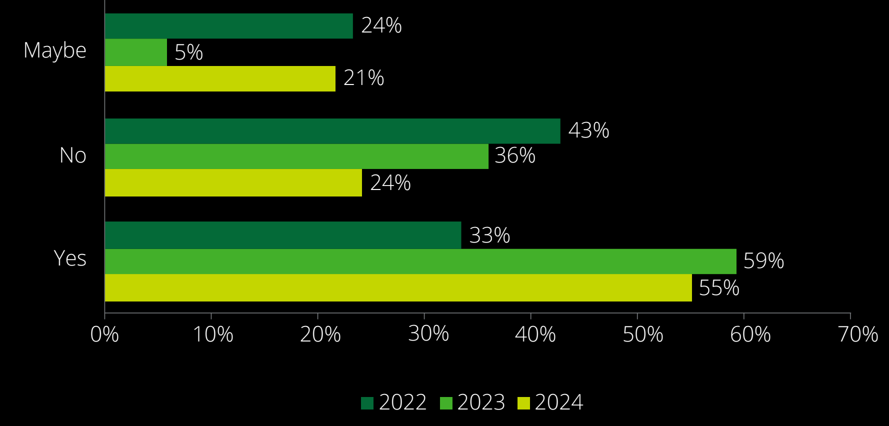
83%

of TMT respondents consider IP value creation activities as part of the diligence process (61% survey wide)

Top 3 challenges to M&A success



Are you considering cross-border M&A transactions in calendar 2024?



Industry spotlight: Technology, media & telecommunications

Pockets of opportunity at home and abroad
Economic conditions continue to feed a two-speed environment in TMT. Smaller scale-up businesses, particularly in technology, can't easily fund aggressive growth in this environment, focusing instead on profitability and demonstrating a clear path to positive cash flows. More established players are better equipped to weather the storm, with greater control over costs and the ability to raise capital to fund growth.

This divide is opening the door to opportunistic M&A, where sector heavyweights can pick up cash-constrained targets at more attractive prices to fill gaps in their core portfolio. While listed tech valuations have held up at the top end of town, falling valuations of small-cap businesses are also attracting interest from local and global private equity investors.

Importantly, TMT organisations are also taking advantage of cross-border M&A to expand their customer base, access human capital and complement their core offering, capitalising on products that can be applied and scaled in new regions.

Valuation silver linings
Though respondents cited target availability as the biggest challenge to M&A, it's par for the course in a sector where many businesses make their own markets or have few direct competitors operating at scale.

Valuations therefore remain the most profound hurdle. Extended due diligence is stalling deals, undermining initial valuations when conditions change, and bid-ask spreads often remain insurmountable.

More deals on the horizon?
Respondents are showing a clear appetite for deals once the economy stabilises. A stay or fall in interest rates and improved macroeconomic conditions will drive growth as IPO markets reopen. TMT also remains an attractive sector to venture capital and private equity firms, who have plenty of dry powder to deploy.

Key takeaways

1. **Looking beyond borders**
   Technology businesses continue to pursue cross-border M&A, buying targets to scale in other regions. This will be an ongoing opportunity to enter new markets, access human capital and complement existing products or services.

2. **Opportunistic deals**
   Until a sunnier economic outlook, opportunistic M&A will continue as cash-constrained scale-up businesses emerge at more attractive valuations.

3. **Exit readiness**
   TMT organisations should consider their readiness for a rise in M&A activity, from opportunistic deals to raising capital as economic conditions improve. When deals pick up and IPO markets are reinvigorated, early movers are likely to reap the biggest rewards.

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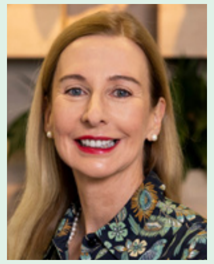

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