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For further info:

Emma Cooney National Public Relations Manager, Grant Thornton

M 0415 842 801 **T** 02 8297 2426 **E** emma.cooney @au.gt.com

Despite lower transaction multiples overall, high multiples are being paid for companies with strong growth prospects

According to the Dealtracker report released by Grant Thornton today, Mergers and Acquisition (M&A) valuation multiples have declined in the last 18 months reflecting a cautious approach to investment in difficult market conditions.

Distribution of deals where we have been able to source valuation multiples (124 deals)

Revenue Range	Number of Deals	Current Dealtracker median EV/EBITDA multiples	*Prior Dealtracker median EV/EBITDA multiples
Less than \$20 million	16	4.9	6.1
Between \$20 million to \$50 million	26	6.1	6.5
Between \$50 million to \$100 million	19	7.0	7.9
Between \$100 million to \$200 million	28	8.7	7.5
Between \$200 million to \$500 million	23	7.0	8.7
Over \$500 million	12	8.9	9.8
	124		

^{*}As per 2011 Dealtracker Publication (based on 197 deals) from 1 January 2010 to 30 June 2011

Grant Thornton's Corporate Finance Partner, Liz Smith says that the generally reduced valuation multiples are not surprising.

"Investors continued to approach transactions with caution given the financial crisis in Europe, the slowdown in the mining boom, the poor retail conditions, the uncertain political environment and concerns of weaker growth rates in China. Lower valuation multiples were also observed in the share market during this period".

"Vendors are reluctant to commence sales processes as they do not believe they would get a fair valuation in the current difficult market conditions. We are also seeing vendors delay sales due to concerns that their businesses are not currently performing at optimum levels," says Liz Smith.

The report also found that most deals that have occurred in Australia have been in relatively poor performing industries.

"It suggests that businesses in low growth industries are looking to M&A for growth opportunities", says Liz Smith.

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"Whilst Dealtracker shows that size is definitely a determinant of value, it is clear the growth prospects of the target are the key driver. Large businesses that operated in struggling industries, such as retail and printing, traded at significantly lower multiples than smaller businesses in high growth sectors, such as mining services and health and aged care," says Liz Smith.

Interestingly, despite the lower valuation multiples and more conservative mindset during this 18 month period, private companies with a unique offering are attracting strong interest from PE and Corporate buyers.

"There has been an increase in the level of appetite for acquisitions by both corporates and PE firms. There are a large number of Australian corporates with strong balance sheets who are still keen to purse a growth strategy through acquisition."

Ms Smith also noted the Australian superannuation sector continues to raise large amounts of cash that needs to be invested and there is an increased interest by this sector in acquiring direct or indirect (through private equity) interests in quality private businesses.

"The valuation multiples sourced for businesses with revenues of less than \$20 million are higher than the median that we would typically expect for businesses of this size. This is in part reflective of us only being able to source deal metrics for a limited proportion of the smallest deals."

"However, what we have seen is a "flight to quality", with a number of purchasers chasing the same deals, which is driving up the valuation multiples achieved for some businesses.

The Dealtracker report showed that buyers interested in Australian businesses included acquirers from North America, Europe, Asia, New Zealand and South America.

"Australia is still seen as an attractive place to invest, given our relatively low level of government debt and our exposure to growth economies such as China and India. Many global investors are seeking to benefit from the growth in our region, without the perceived risks associated with a direct investment in these emerging economies", says Liz Smith.

"Despite the lower level of transaction multiples, we are confident that the M&A activity will improve in the medium term. There are a number of investors actively looking for acquisition targets and the banks are also keen to fund quality transaction opportunities. A number of private businesses have been deferring sales processes in the current market conditions. Therefore as vendors gain confidence in fair valuation multiples, we expect to see a gradual increase in deal activity", says Liz Smith.

For more information, please contact:

Emma Cooney

National Public Relations Manager Grant Thornton Australia Ltd T +61 8297 2426 / M +61 415 842 801

E emma.cooney@au.gt.com

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