IDEAS | PEOPLE | TRUST

2021

BDO GROWTH INDEX

An analysis of mid-sized businesses in Australia

In collaboration with Commonwealth Bank

EXECUTIVE SUMMARY

The BDO Growth Index 2021, with supported insights from Commonwealth Bank, analyses mid-sized business growth in Australia by sector and state. This year we also include economic commentary from Belinda Allen, Senior Economist, Global Economic & Markets Research, Commonwealth Bank and qualitative insights from leading industry experts at BDO and Commonwealth Bank.

BDO analysed a sample of almost 900 Australian mid-sized businesses, looking at their most recent three years of financial data and demographic information – using data sourced from IbisWorld. Mid-sized businesses are defined by annual revenues, as organisation's with annual turnover between $10 million and $1 billion.

Key findings highlight that despite adverse conditions, mid-sized businesses are growing. On average, revenues among mid-sized businesses in Australia have increased at a Compound Annual Growth Rate (CAGR) of 7.63% (over 3 years). Year-end dates vary for mid-sized businesses, however, the majority (88%) have year-ends of December 2019 (45%) and June 2020 (43%).

Findings also highlight the typical characteristics of a mid-sized business in Australia including its geography, structure and sector. This report breaks down the top five growth sectors and the top five businesses achieving the fastest revenue growth, with further insights into the trends, challenges and opportunities.

Limitations to this report include lower sample sizes for underrepresented states and sectors. Therefore, our analysis focusses primarily on states and sectors where sample sizes are more material. In addition, data has not been adjusted to consider any unreported effects that the adoption of new, amended and previously exempted accounting standards has on the previous year's reported information.

FOREWORD

BDO and Commonwealth Bank are delighted to present the BDO Growth Index 2021.

The events of the past year have shown that despite the recession, the slice of the Australian economy which continues to tick the box for economic success, is the quiet-achieving middle market.

For most of us in business, 2020 was the most challenging year we have experienced in our working lives. Apart from the financial and emotional trauma of market changes, forced cost savings and managing our workforce, we had to deal with a level of uncertainty that we have never seen before; and this gave new meaning to the term 'contingency planning' - as businesses developed multiple scenarios for outcomes that were impossible to predict. As advisers, we have also had to adapt - learning to trust our knowledge, instincts and ideas to assist our clients in every way possible to navigate the storm.

At BDO, we have built our business on servicing the needs of mid-sized businesses and during the pandemic, we have seen successful clients in this sector adapt to the challenges by sticking to their core business or in many cases, grasping the opportunity to pivot. For those who have been able to survive or prosper, these circumstances have led to necessary transformation, with many businesses pushing to make changes they had been considering for some time, but haven't had the commercial rationale or urgency to do it.

As we present this report, we are at last coming into a period that is providing some clarity for business. Whilst the pandemic continues to play out across the world, mid-sized businesses are better equipped to gear up for the next phase of innovation - which as history shows, is often a result of a prolonged downturn.

With a return to economic growth being a priority, the mid-sized business represents an untapped opportunity to assist Australia's recovery beyond COVID-19.

Our research has found that typically mid-sized businesses are more established than smaller businesses and are in a better position to adapt to the forces being placed upon them. The value of what is largely privately owned businesses is critical to Australia's recovery as we come out of the recession. The 2021 BDO Growth Index finds that mid-sized businesses continue to punch above their weight in terms of generating growth. They are unique in that they are large enough to invest and make a meaningful impact on the economy, yet small enough to be entrepreneurial and nimble, often with a clear market niche.

Whilst there is always plenty of innovation occurring in the start-up community, innovation tends to be commercialised in the mid-market. The ability to adapt and quickly respond to changing markets are key characteristics of successful mid-sized businesses. We hope you enjoy the BDO Growth Index 2021.

GRANT SAXON
Sydney Office Managing Partner

Mid-sized businesses are huge contributors to our nation's prosperity and growth, and the source of employment for so many Australians. CommBank continues to back many businesses within the mid-market, not only through its commercial solutions but through tracking the operating and competitive dynamics of many industries. Our particular areas of industry expertise include Professional Services, Construction, Manufacturing and Wholesale Trade, and Retail Trade.

Prior to the pandemic, Australia had been enjoying an unrivalled 29 years of uninterrupted economic growth. And while health and economic challenges remain, Australia is once again leading advanced economies on the path to recovery. During the pandemic many mid-sized businesses reviewed their business models and profit/cost drivers. As a result, they are emerging leaner, stronger and with a vastly improved digital offering. There is a sense of renewed vigour and optimism.

Businesses have faced tremendous change over the past three years. Technological advances have had a big impact. On the one hand technology has enabled businesses to be more efficient and productive, to develop new products and services, and to better understand and meet their customers' need. Yet it has also brought considerable disruption, including the entry of new business models.

Mid-sized businesses have had to deal with a changing regulatory environment, as well as heightened expectations of businesses' role in society. Customer needs and expectations continue to evolve. Whatever their last best-in-class experience was, they expect the same from all interactions with businesses, regardless of industry.

The pandemic has only accelerated many of these trends. The business landscape is as dynamic as ever, making resilience, adaptability, and the ability to innovate at pace essential qualities for mid-sized businesses wanting to grow.

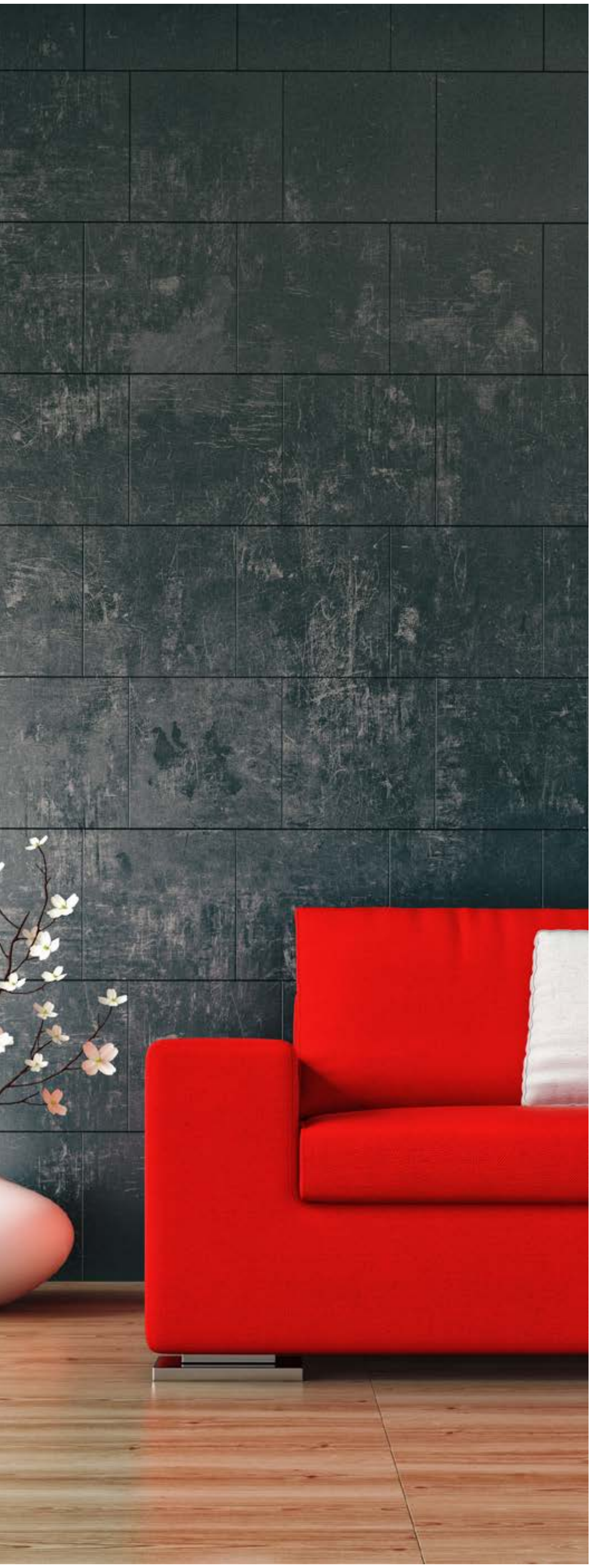
This report covers a broad spectrum of industries. Nevertheless, as Australia's largest bank, it is evident from conversations with our business customers that some common themes are at play as businesses think about where they should be channelling their resources to set themselves up for continued growth.

The skills that businesses will need in the workforce of the future is a recurring topic, as is the necessity of staying close to customers and using data analytics to better understand their needs. The pandemic was a timely reminder that supply chains must be strong and diversified, while geopolitical events such as Brexit and tensions with China present challenges but also opportunities to expand into new markets.

Businesses must understand their value proposition, how it differentiates them in the market, and ensure they remain relevant. Ongoing investment in people, technology and digital transformation is an imperative.

Conditions for investment are ideal. Interest rates are at record lows and likely to remain so for quite some time. At CommBank, we have considerable appetite to back businesses with sound plans for growth. We see many opportunities for businesses that are prepared to be bold and invest for further growth now.

MARK COUTER
Executive General Manager
Commercial Banking
Commonwealth Bank



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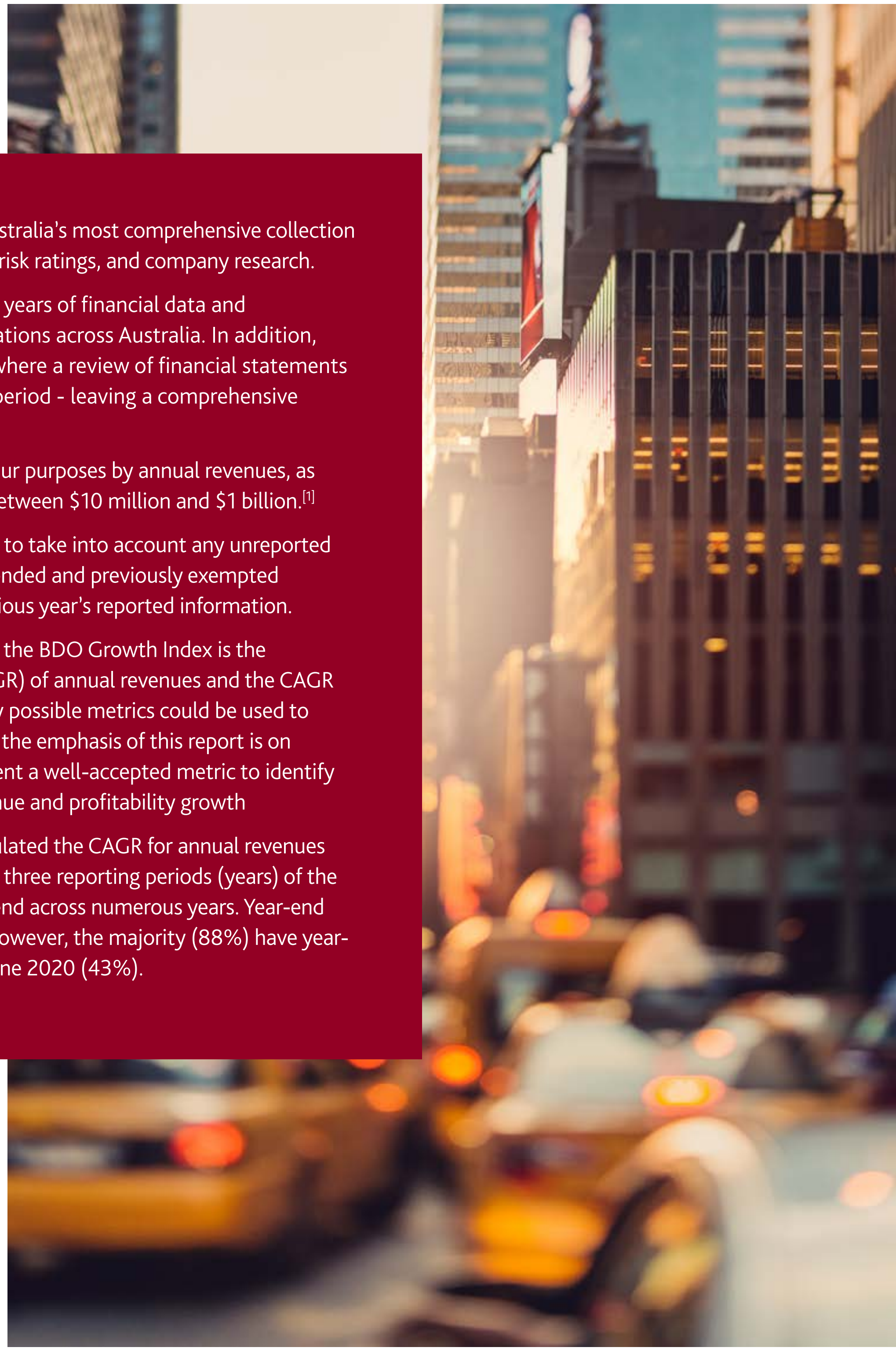
METHODOLOGY



Data was sourced from IBISWorld; Australia's most comprehensive collection of industry market research, industry risk ratings, and company research.

BDO analysed the most recent three years of financial data and demographic information of organisations across Australia. In addition, BDO focused only on organisations where a review of financial statements was available for the full three-year period - leaving a comprehensive sample of 896 unique organisations.

Mid-sized businesses are defined for our purposes by annual revenues, as organization's with annual turnover between $10 million and $1 billion.[1]

Note: The data has not been adjusted to take into account any unreported effects that the adoption of new, amended and previously exempted accounting standards has on the previous year's reported information.

The primary metric considered within the BDO Growth Index is the Compound Annual Growth Rate (CAGR) of annual revenues and the CAGR of Profit before tax (PBT). While many possible metrics could be used to evaluate organisational performance, the emphasis of this report is on growth. Revenue and PBT CAGR present a well-accepted metric to identify organisations that are achieving revenue and profitability growth

Throughout this report, we have calculated the CAGR for annual revenues and profitability over the most recent three reporting periods (years) of the organisations, to identify a growth trend across numerous years. Year-end dates vary for mid-sized businesses; however, the majority (88%) have year-ends of December 2019 (45%) and June 2020 (43%).

[1] For more information on the definition of mid-sized businesses in Australia, see appendix.

KEY FINDINGS OVERVIEW

DESPITE ADVERSE CONDITIONS, MID-SIZED BUSINESSES IN AUSTRALIA ARE GROWING

The BDO Growth Index 2021 results reveal that mid-sized businesses in Australia have grown by a Revenue Compound Annual Growth Rate (CAGR) of 7.63% (over 3 years). Within this average range, we note exceptional performers with revenue growth rates as high as 863%.

Mid-size business profits are relatively flat though as a result of tough economic trading conditions through the global COVID-19 pandemic. Profit Before Tax (PBT) CAGR indicates a marginal rise of 0.08% across the mid-sized business market (over 3 years). However, there are some exceptional profitability performances, as high as 289% over this period.

THE SHAPE OF MID-SIZED BUSINESS IN AUSTRALIA

According to the results of the BDO Growth Index 2021, mid-sized businesses have recorded average annual revenues of $351.7 million during their most recent reporting period. Profits are also positive with the average mid-sized business achieving a profit margin of 5.65% and $19.9 million in PBT.

Mid-sized businesses in Australia are more likely to be privately-owned than publicly operated. The most common organisational structure for mid-sized businesses in Australia is 'private proprietary company', representing more than half of all businesses (57%).

Profits and revenues among mid-sized privately-owned companies have continued to grow faster compared to public companies of the same size.

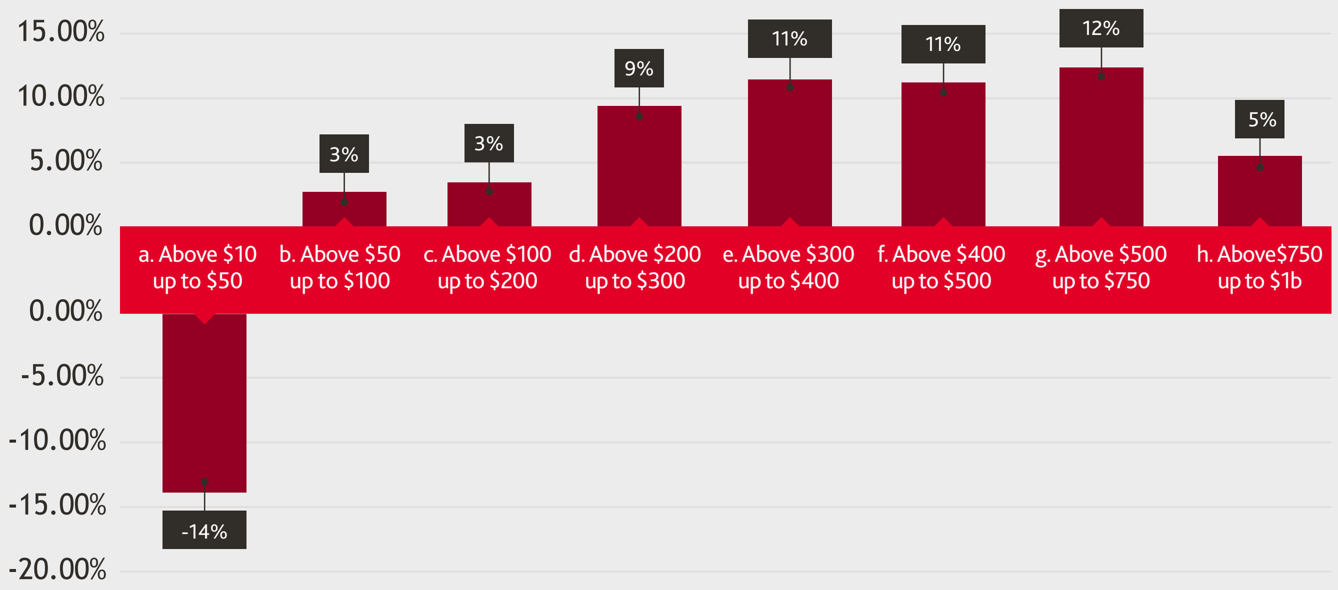
Private companies have recorded an average revenue CAGR of 8.73% over the past three years. This is 1.1 percentage points faster than the overall market average.

Public companies, however, have seen revenues grow at 6.39% over the same period (average CAGR of revenue).

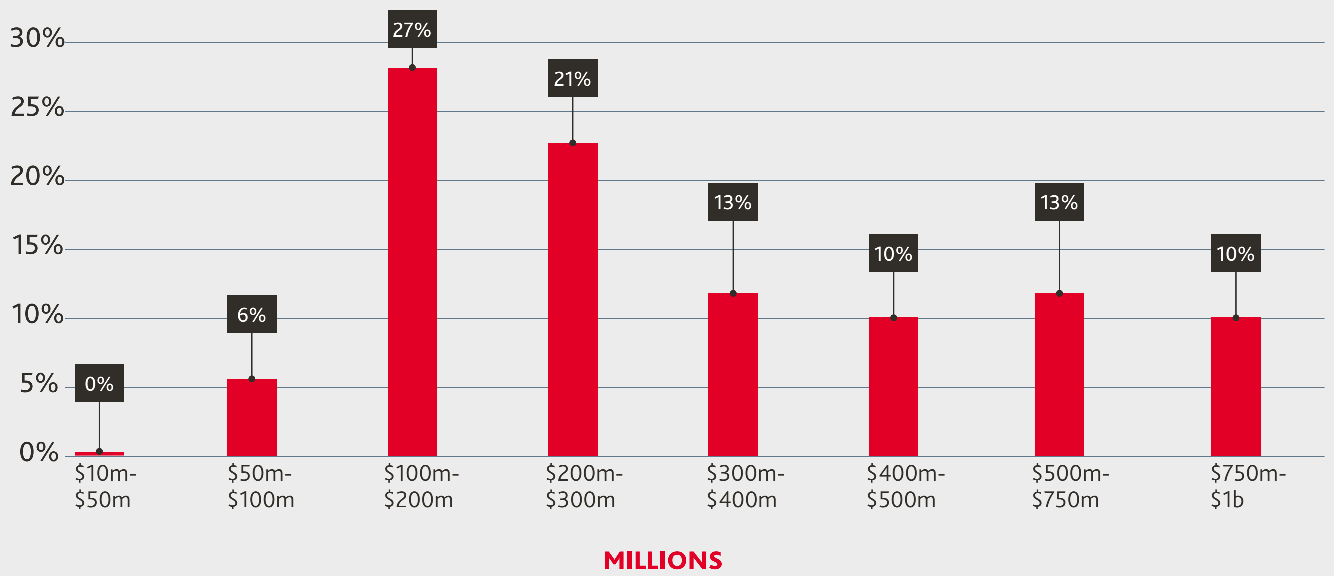
Over three-quarters of mid-sized businesses in Australia generate annual revenues below $500m (77%); however, revenue growth varies quite significantly depending on the scale of the organisation. A larger business with greater scale and depth of resources can generate better revenue returns (up to 12.35%), compared to smaller mid-sized businesses (-13.88%) as shown on the right:

REVENUE RANGE	AVERAGE OF REV CAGR
Above $10m up to $50m	-13.88%
Above $50m up to $100m	2.73%
Above $100m up to $200m	3.48%
Above $200m up to $300m	9.36%
Above $300m up to $400m	11.44%
Above $400m up to $500m	11.18%
Above $500m up to $750m	12.35%
Above $750m up to $1b	5.50%

AVERAGE OF REVENUE CAGR



% MID-SIZED BUSINESSES (BY COUNT OF ORGANISATION)



A TYPICAL MID-SIZED BUSINESS IN AUSTRALIA

Is based on the East Coast of Australia **85%**

Most likely to be a privately-owned company **57%**

Is most likely to be involved in either Wholesale or Manufacturing **36%**

Achieved revenues of **$351.7 million per annum**

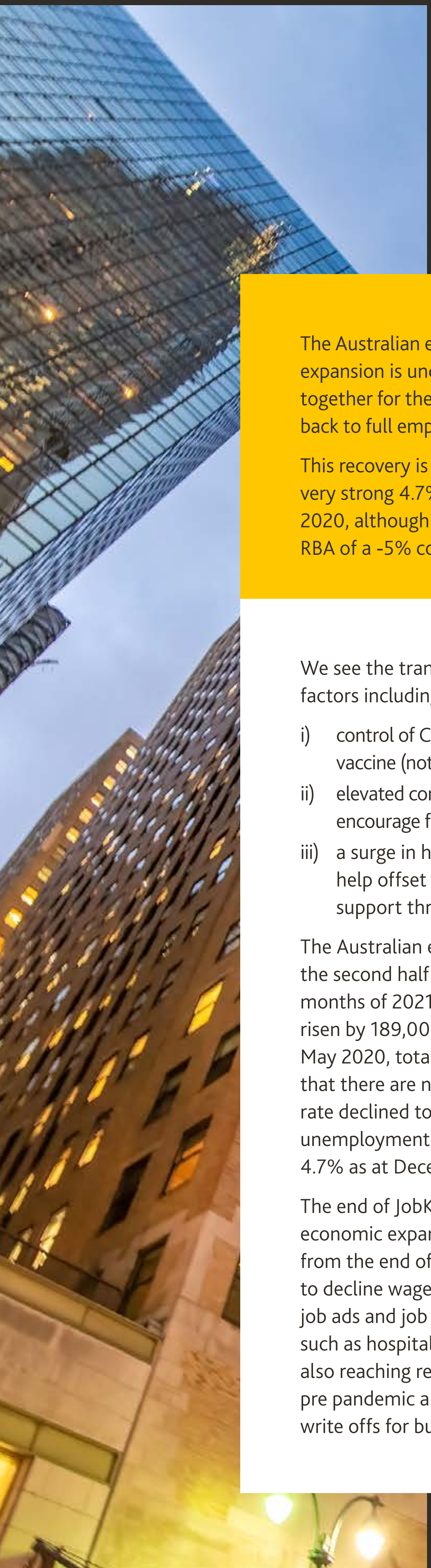
Achieved Profit Before Tax of **$19.9 million**

Achieved an average Revenue CAGR of **7.63%** over three years

Average Profit Before Tax CAGR **0.08%** over three years

Paid **$317 thousand** in Audit fees

Achieved an average profit margin of **5.7%**



THE AUSTRALIAN ECONOMY – FROM RECOVERY TO EXPANSION

The Australian economy has recovered from its COVID-19 induced recession and an economic expansion is underway. This has been fuelled by both monetary policy and fiscal policy working together for the first time in many years to see economic activity expand and return employment back to full employment.

This recovery is expected to continue over the next two years. We expect economic growth at a very strong 4.7% in 2021 and 3.7% in 2022. It is also worth noting that the -2.4% recession of 2020, although a deep downturn, was approximately half as bad as the original forecast by the RBA of a -5% contraction.

We see the transition in the Australian economy being supported by a number of factors including:

i) control of COVID-19 and the rollout of the vaccine (notwithstanding some delays)
ii) elevated consumer confidence that will encourage further spending
iii) a surge in household savings that will help offset reduced government income support through 2021
iv) the improving housing market – prices, lending and construction
v) a jump in domestic tourism
vi) strong resource (iron ore) exports
vii) a large increase in public sector infrastructure spending.

The Australian economy finished 2020 in a good position with economic growth rising over the second half of 2020. The momentum in economic data has accelerated over the first four months of 2021, with the labour market especially posting dramatic gains. Employment has risen by 189,000 in the first three months of the year. After dropping by -878.2k from March-May 2020, total employment has grown by 947.1k from June 2020 to March 2021, meaning that there are now more jobs in Australia than there was pre-COVID-19. The unemployment rate declined to 5.6% in March 2021, well below the COVID-19 peak of 7.5% in mid-2020. The unemployment rate is expected to fall to 5.0% by December 2021 and then decline further to 4.7% as at December 2022.

The end of JobKeeper in late March 2021, was expected to be a test to the resilience of the economic expansion and the strength of the labour market. To date we have seen little impact from the end of the wage subsidy. The number of CBA accounts receiving JobSeeker continues to decline wages & salaries paid continue to grow. Forward indicators of labour demand like job ads and job vacancies continue to rise. There is growing feedback of skills shortages in areas such as hospitality, professional services, health workers and labourers. Business surveys are also reaching record highs and we expect business investment to recovery from its weakness pre pandemic and make a positive contribution to growth in 2021 and 2022. An extension of tax write offs for businesses as part of the 2021/22 should also help promote investment.

The economic expansion for 2021 and then 2022 will be assisted by continued fiscal and monetary policy support. The 2021/22 Federal Budget handed down on 11 May shows the Government will play a large role in the demand management of the Australian economy, with new policy announcements to assist in returning Australia's unemployment rate back to and below its pre pandemic rate.

For 2021/22 the deficit is expected to decline to $A106.6 billion (5.0% of GDP), only marginally lower than the Mid Year Economic and Fiscal Outlook estimate of $A108.5 billion (5.3% of GDP). For 2021/22 the stronger economy delivered an extra $A26.8bn to the bottom-line, but $A21.5 billion of this was spent. By 2023/24 the deficit is expected to be down to $A57.0 billion (2.4% of GDP).

Net government debt is expected to rise from $A617.5 billion (30% of GDP) as at June 2021 to peak at $A980.6 billion (40.9% of GDP) as at June 2025, lower than previous estimates due to the improvement in the economy. However, the very low interest rate environment and the RBA's monetary policy framework means that net interest payments will remain around 0.7% of GDP for each year out to 2024/25. The bottom-line is that the Government's debt repayments should remain very manageable and that the economic benefits of this debt will far out-way the interest costs.

The Government's new spending initiatives are focused on a transition from broad-based support for the economy to a more targeted approach. But this targeted approach is supporting a wide range of sectors in the economy and focussing on some policy areas where much-needed policy support is required. Child care, Aged Care and Mental Health funding are all examples of this. Government initiatives around extending the low middle income tax offset should also help consumer spending at a time when confidence is high and accumulated savings are elevated.

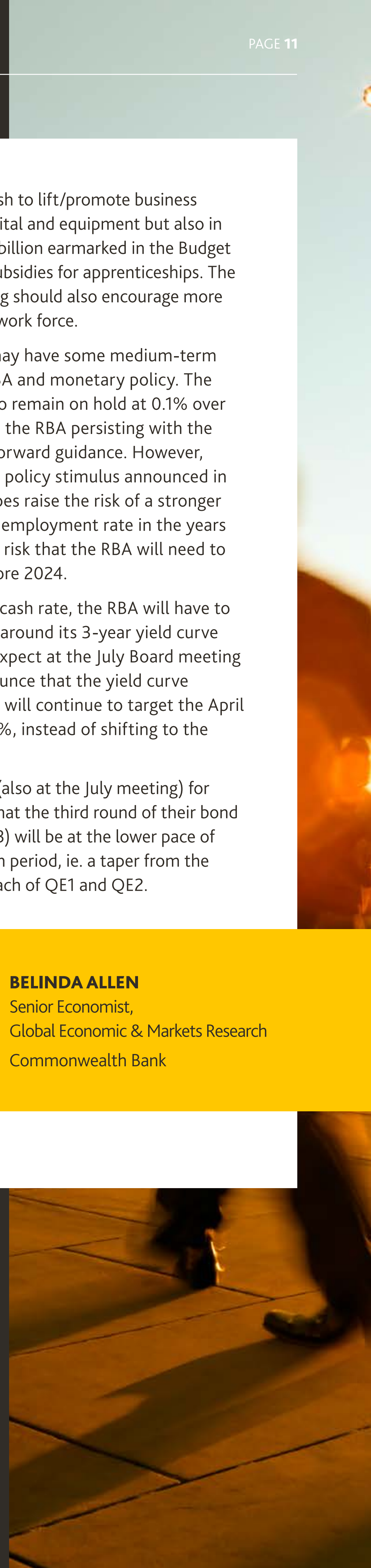
There is also a large push to lift/promote business investment in both capital and equipment but also in people. There is $A6.4 billion earmarked in the Budget for skills training and subsidies for apprenticeships. The extra Child Care funding should also encourage more females back in to the work force.

The 2021/22 Budget may have some medium-term implications for the RBA and monetary policy. The cash rate is expected to remain on hold at 0.1% over the coming years, with the RBA persisting with the '2024 at the earliest' forward guidance. However, the extent of the fiscal policy stimulus announced in the 2021/22 Budget does raise the risk of a stronger economy and lower unemployment rate in the years ahead, holding out the risk that the RBA will need to raise the cash rate before 2024.

But before a lift in the cash rate, the RBA will have to make announcements around its 3-year yield curve control program. We expect at the July Board meeting that the RBA will announce that the yield curve control (YCC) program will continue to target the April 2024 bond yield at 0.1%, instead of shifting to the November 2024 bond.

In addition, we expect (also at the July meeting) for the RBA to announce that the third round of their bond purchase program (QE3) will be at the lower pace of $A50bn over a 6 month period, ie. a taper from the $A100 billion seen in each of QE1 and QE2.

BELINDA ALLEN
Senior Economist,
Global Economic & Markets Research
Commonwealth Bank



BDO GROWTH INDEX 2021 IN-DEPTH ANALYSIS

Despite unprecedented social, environmental, and economic challenges, mid-sized businesses within Australia have remained resilient.

DEVELOPMENT OF THE BDO GROWTH INDEX

Mid-sized businesses in Australia are often considered the engine room of economic performance and are often combined with the 'small-to-medium' segment - yet they offer characteristics that make them distinctively unique. To accurately analyse the middle-market, BDO has developed the BDO Growth Index. Currently in its third year of deployment, the BDO Growth Index uncovers the distinct characteristics of the market.

MID-SIZED BUSINESSES ACHIEVE AN AVERAGE REVENUE CAGR OF 7.63% OVER THREE YEARS

This year's BDO Growth Index reveals mid-sized businesses in Australia are growing. On average, revenues among mid-sized businesses in Australia have increased at a CAGR of 7.63% (over three years). Profits have also been rising slightly among mid-sized businesses, with the BDO Growth Index showing average PBT growth at a CAGR of 0.08% (over three years).

While the market consists of businesses of all shapes and sizes, the average mid-sized businesses in Australia have recorded annual revenue of $351.7 million across its most recent reporting period.

Even amidst such challenging conditions, mid-sized businesses in Australia have remained profitable. The average mid-sized business in Australia is currently achieving a profit margin of 5.7%, retaining nearly $20 million in average profits before tax (PBT).

More than two-thirds of mid-sized businesses in Australia **(68%)** have grown revenues over the past three years.

MID-SIZED BUSINESSES IN AUSTRALIA

More than half of mid-sized business is privately owned

Privately-owned and public companies combined represent the significant majority of businesses within the market (90%). The most common organisational structure for mid-sized businesses in Australia is 'private proprietary company' or privately-owned company, representing more than half of all businesses (57%) in the market. The second most commonly held ownership type is 'public company,' which represents a third of the market (33%). The remaining, less common, ownership structures among mid-sized businesses include Government Bodies (8%), Trusts (2%), and Co-operative arrangements (0.1%).

GROWING REVENUES AMONG PRIVATELY-OWNED MID-SIZED BUSINESSES

Profits and revenues have both grown faster among mid-sized privately-owned companies compared to public companies.

Over the past three years, private companies have recorded an average revenue CAGR of 8.73%. This has occurred at a rate 1.1 percentage points faster than the market average. Public companies, on the other hand, have seen revenues increase at a rate of 6.39% over the same period (average CAGR of revenue), which is 1.24 percentage points lower than the mid-sized business market average and 2.34% lower than privately held companies.

[1] Based on a positive revenue CAGR averaged over three years.

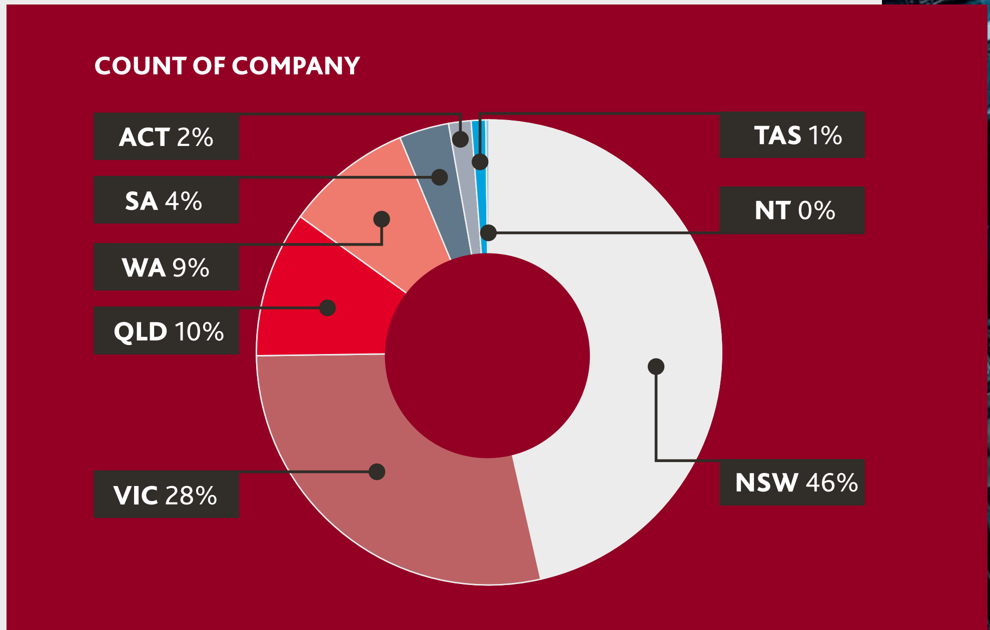
GEOGRAPHIC INSIGHTS

Australia's mid-sized businesses are primarily distributed along the East Coast of Australia. Businesses in New South Wales, Victoria and Brisbane represent 85% of the market.

NEW SOUTH WALES - THE HOME OF MANUFACTURING

Nearly half of all mid-sized businesses are based in New South Wales (46%). Two-thirds of these are private companies (66%), which is the highest proportion of privately-owned businesses compared to any other state or territory in Australia (56% Victoria and 55% South Australia).

Revenue growth has remained positive among mid-sized businesses in New South Wales, increasing at an average revenue CAGR of 7.05%. This ranks New South Wales as the fourth fastest state for average revenue growth among mid-sized businesses.



The three most common industries for mid-sized businesses in New South Wales are Wholesale Trade (24%), Manufacturing (14%) and Financial Services (13%). Not only do wholesalers in New South Wales represent a large proportion of the state's market (24%), but they represent over one-tenth (11%) of the Australian market for mid-sized businesses.

In terms of percentage revenue growth – the fastest-growing mid-sized business in NSW is Amazon Australia (achieving a 549.81% Revenue CAGR over the most recent 3 years).

MID-SIZED BUSINESSES GROWING IN VICTORIA

Victoria contains over a quarter of Australia's mid-sized businesses (28%). The BDO Growth Index 2021 has revealed that mid-sized businesses in the state are growing at an average revenue CAGR of 8.57% (over three years), which positions the state in third place, behind WA and ACT.

The most common industries include Manufacturing (22%), Wholesale Trade (20%) and Retail Trade (8%). Nearly two-fifths of Australia's mid-sized retail businesses (39%) are located in Victoria.

In terms of percentage revenue growth – the fastest-growing mid-sized business in Victoria is Emergent Cold (achieving an 863% Revenue CAGR over the most recent 3 years).

THE PROMINENCE OF PUBLIC BUSINESSES IN QUEENSLAND

Queensland is one of only two states and territories where mid-sized businesses are slightly more likely to be publicly owned (45% compared to 44% privately-owned companies). The only other state to record a higher proportion of public companies (53%) compared to proprietary businesses (39%) is Western Australia.[1]

In Queensland, mid-sized business revenues are growing at an average rate of 4.03% over 3 years. This ranks Queensland as the sixth highest state/territory based on the BDO Growth Index 2021 results. Queensland is marginally behind South Australia in terms of CAGR Revenue growth (4.18%) and Tasmania (4.17%).

The largest industry segment among mid-sized businesses in Queensland is Manufacturing, which comprises 25% of the market, followed by Professional Services, which account for one in 10 mid-sized businesses (10%), and a similar proportion of construction businesses (9%).

In terms of percentage revenue growth – the fastest-growing mid-sized business in Queensland is Verbrec (achieving a 66.96% Revenue CAGR over the most recent three years).

WESTERN AUSTRALIA DOMINATES THE MINING SECTOR

Western Australia is one of the fastest-growing states in terms of mid-sized business revenue growth over the last three years. Organisations in Western Australia have achieved an average of 12.55% Revenue CAGR. In Western Australia, the largest industry segment is Mining which represents 39% of the state's market. Nearly two-thirds of all mid-sized mining companies (65%) are in the western state.

In terms of percentage revenue growth – the fastest-growing mid-sized business in Western Australia is Boskalis Australia (achieving a 289.53% Revenue CAGR over the most recent three years).

[1] Northern Territory has been excluded from this commentary based on its small sample size (n=2).

OTHER STATES AND TERRITORIES

The remaining states and territories contain 15% of Australia's mid-sized businesses. ACT reflects the highest growth rate in terms of Revenue CAGR (14.34%), however, the sample size is small[1].

In terms of percentage revenue growth – the fastest-growing mid-sized business in South Australia is Sealink Travel Group (achieving a 73.06% Revenue CAGR over the most recent 3 years).

[1] The ACT sample size is relatively small (n=14).

WA

% OF MID-SIZED BUSINESSES: 9%
REVENUE CAGR: 12.55%
% PRIVATE COMPANY: 39%
% PUBLIC COMPANY: 53%

TOP 3 INDUSTRIES FOR MID-SIZED BUSINESSES

- Mining 39%
- Construction 18%
- Professional Services 10%

QLD

% OF MID-SIZED BUSINESSES: 10%
REVENUE CAGR: 4.03%
% PRIVATE COMPANY: 44%
% PUBLIC COMPANY: 45%

TOP 3 INDUSTRIES FOR MID-SIZED BUSINESSES

- Manufacturing 25%
- Professional Services 10%
- Construction 9%

NSW

% OF MID-SIZED BUSINESSES: 46%
REVENUE CAGR: 7.05%
% PRIVATE COMPANY: 66%
% PUBLIC COMPANY: 28%

TOP 3 INDUSTRIES FOR MID-SIZED BUSINESSES

- Wholesale 24%
- Manufacturing 14%
- Financial Services 13%

SA

% OF MID-SIZED BUSINESSES: 3%
REVENUE CAGR: 4.18%
% PRIVATE COMPANY: 55%
% PUBLIC COMPANY: 29%

TOP 3 INDUSTRIES FOR MID-SIZED BUSINESSES

- Manufacturing 35%
- Financial Services 10%
- Wholesale 10%

VIC

% OF MID-SIZED BUSINESSES: 28%
REVENUE CAGR: 8.57%
% PRIVATE COMPANY: 56%
% PUBLIC COMPANY: 32%

TOP 3 INDUSTRIES FOR MID-SIZED BUSINESSES

- Wholesale 20%
- Manufacturing 22%
- Retail 8%

ACT

% OF MID-SIZED BUSINESSES: 2%
REVENUE CAGR: 14.34%
% PRIVATE COMPANY: 43%
% PUBLIC COMPANY: 14%

TOP 3 INDUSTRIES FOR MID-SIZED BUSINESSES

- Professional Services 21%
- Manufacturing 14%
- Public Administration 14%

[1] *ACT data is included, but please note the sample size is small (n=14)*

[2] *Tas (n=9) and NT (n=2) are excluded, as the sample size is too small to provide robust insights*

INDUSTRIES DRIVING GROWTH

More than half of all mid-sized businesses in Australia (59%) operate within just five core industries.

WHOLESALE TRADE AND MANUFACTURING GENERATE THE LARGEST REVENUES

The two largest industries represented within the market are Wholesale Trade (18%) and Manufacturing (18%). Not only do these two industry segments represent the largest proportion of businesses, but they also account for the largest proportion of total revenue.

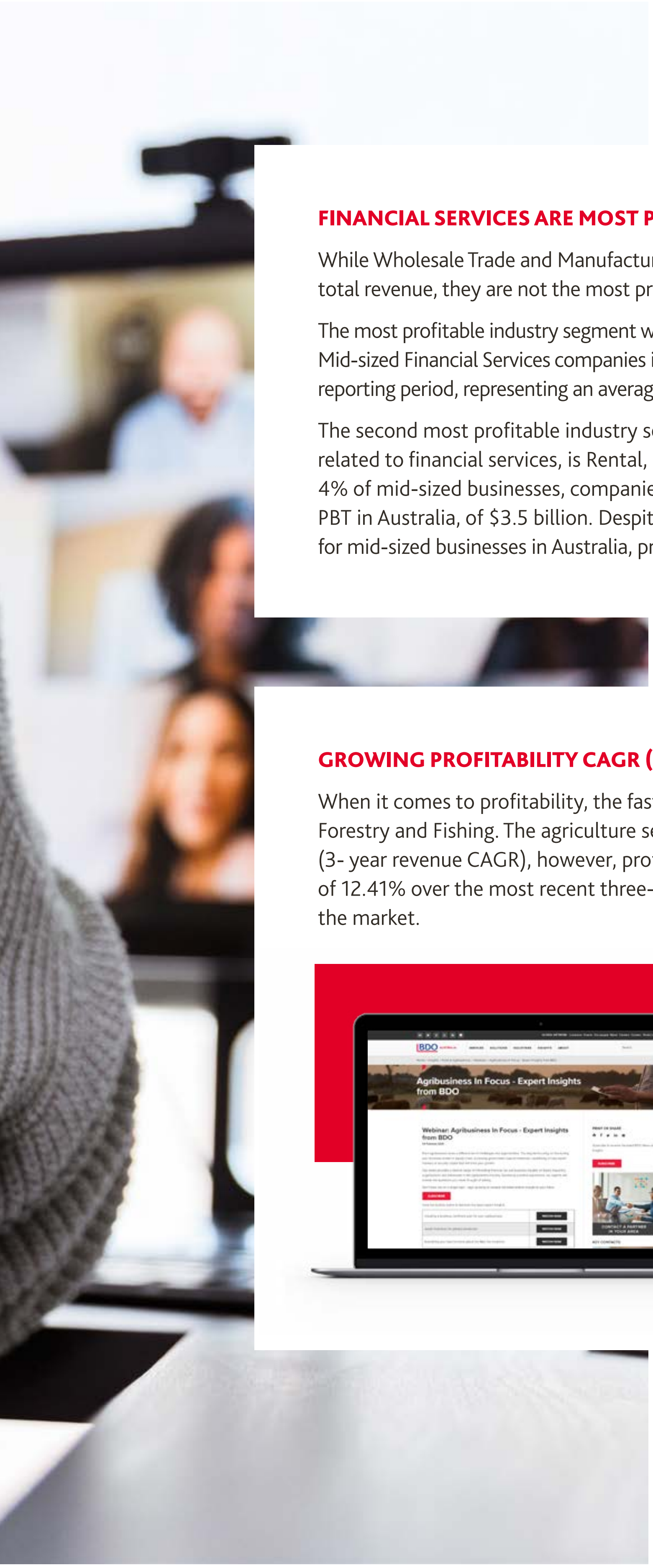
During the most recent reporting period, these two industries combined have recorded total revenue of $116 billion. This represents nearly two-fifths of the markets combined annual revenue (37%). The Wholesale Trade industry segment recorded the largest total revenue of $60 billion, closely followed by manufacturing which recorded revenues of $57 billion.

TRANSPORT, POSTAL & WAREHOUSING AND RETAIL EXPERIENCING THE FASTEST CHANGES IN REVENUE GROWTH

The BDO Growth Index 2021 also looks at compound annual revenue growth over the past three years of reported financial data. During this period, the Transport, Postal and Warehousing industry sustained the highest average revenue growth for mid-sized businesses compared to all other industries. Total revenues within the Transport, Postal, and Warehousing industry are currently growing at an average three-year CAGR of 26.76%. This is more than three times faster than the market average (7.63%).
This growth is mirrored in the retail industry, which achieved a revenue CAGR of 26.59% over the most recent three-year period. It seems clear the logistics sector and retail are closely connected, particularly during COVID-19, as social movement has been drastically restricted and retail activity has occurred online, facilitated by logistics businesses. These findings coincide with the findings from **BDO's 2019** and **2020 A-REIT** report.

AVERAGE OF REVENUE CAGR BY PRIMARY SECTOR/INDUSTRY

27% Transport, Postal and Warehousing	11% Mining	7% Financial and Insurance Services	3% Wholesale Trade
27% Retail Trade	10% Construction	6% Electricity, Gas, Water and Waste Services	3% Manufacturing
12% Accommodation and Food Services	8% Education and Training	4% Agriculture, Forestry and Fishing	3% Public Administration and Safety
12% Professional, Scientific and Technical Services	8% Average for all sectors	4% Personal Services	1% Administrative and Support Services
12% Health Care and Social Assistance	7% Arts and Recreation Services	4% Rental, Hiring and Real Estate Services	-3% Information Media and Telecommunications



FINANCIAL SERVICES ARE MOST PROFITABLE

While Wholesale Trade and Manufacturing are the largest industry segments by both business count and total revenue, they are not the most profitable.

The most profitable industry segment within the market for mid-sized businesses is Financial Services. Mid-sized Financial Services companies in Australia earned a total PBT of $3.7 billion during the most recent reporting period, representing an average profit margin of 14%.

The second most profitable industry segment within the mid-sized business market, which is closely related to financial services, is Rental, Hiring and Real Estate. While this sector only represents 4% of mid-sized businesses, companies within this industry created 20% of all mid-sized business PBT in Australia, of $3.5 billion. Despite Financial Services being the most profitable industry segment for mid-sized businesses in Australia, profitability may continue to shift over the coming years.

GROWING PROFITABILITY CAGR (OVER 3 YEARS) AMONG AGRI-BUSINESSES

When it comes to profitability, the fastest growing industry within the mid-sized market is Agriculture, Forestry and Fishing. The agriculture sector has recorded conservative revenue growth at 3.91% (3- year revenue CAGR), however, profitability is markedly improved, reflecting an average PBT CAGR of 12.41% over the most recent three-year period, which is twice as fast as any other industry within the market.

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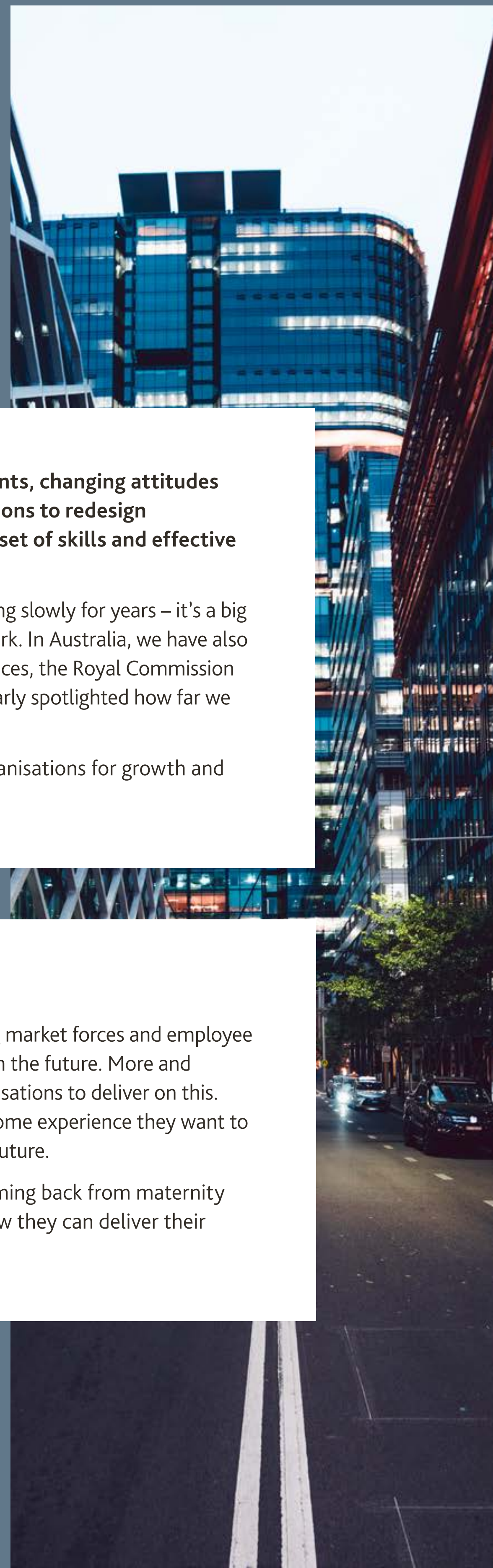
Agri-business in focus: Expert Insights from BDO

FUTURE OUTLOOK - A BUSINESS PERSPECTIVE



REDESIGNING THE WAY WE WORK – FLEXIBILITY, WELLBEING AND EQUALITY

JENINE WATERS
National Leader, People Advisory

Recent changes to the way we work have been driven by large-scale events, changing attitudes and social pressure for demonstrated accountability – forcing organisations to redesign workforces that are centred on deliberate design and will require a new set of skills and effective change management.

COVID-19 has in many respects fast-forwarded changes that had been occurring slowly for years – it's a big impact change that provided a platform to create a true shift in the way we work. In Australia, we have also witnessed the events such as the Haines Royal Commission into Financial Services, the Royal Commission into Aged Care, and the more recent events in our political arena that have clearly spotlighted how far we must go in bridging the gender gap.

All of this has led to four key trends that are (or should be) considered by organisations for growth and talent retention. The first is obvious:

1. REDEFINING FLEXIBILITY

We are now looking at the workforce of the future. In this future we are finding market forces and employee expectations are driving organisations to think about the ways they will work in the future. More and more employers have expectations of flexibility and they are looking for organisations to deliver on this. Organisations need to deliberately look at what elements of the Work from Home experience they want to retain, and how they will shift and grow their approach to flexible work in the future.

The lexicology of workplace flexibility is now more than part-time mums coming back from maternity leave – it's a total rethink about who we need, where they need to be and how they can deliver their value to the organisation, and vice versa.

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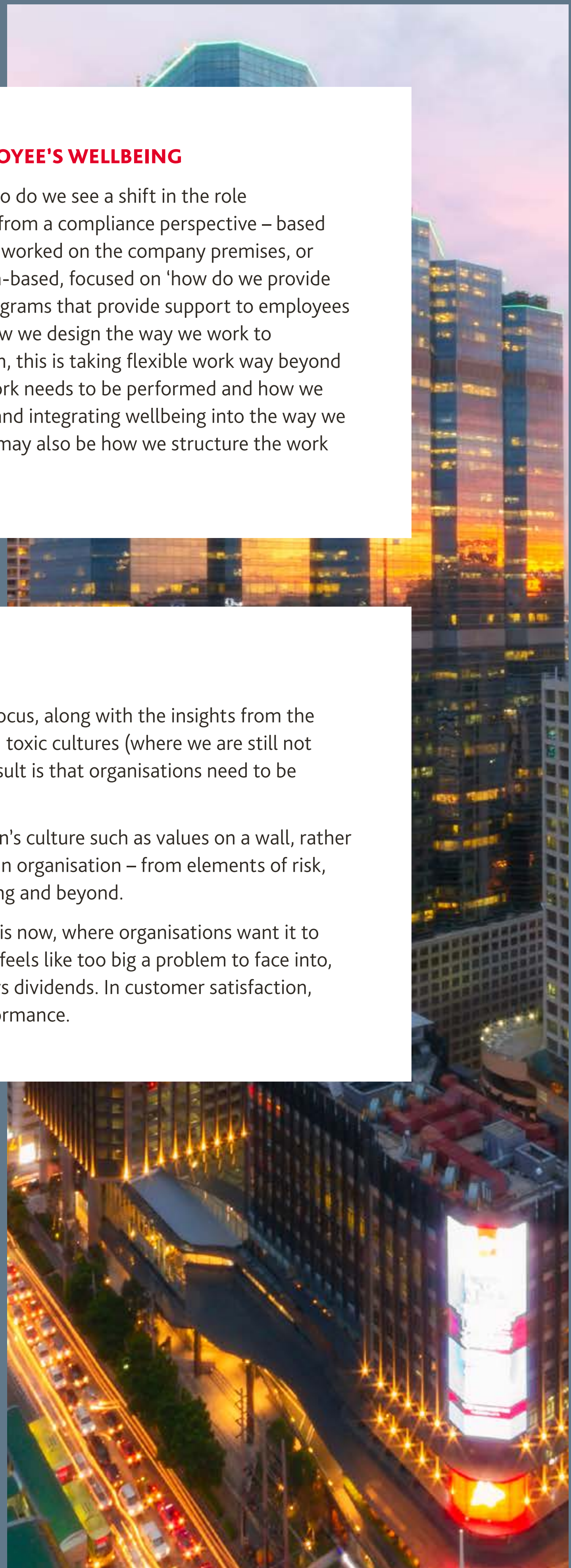

2. INCORPORATING THE WHOLE SENSE OF THE EMPLOYEE'S WELLBEING

As we break down the barriers between home and work, so too do we see a shift in the role organisations play in wellbeing. Originally wellbeing was lead from a compliance perspective – based on the concept of ensuring the physical safety of staff as they worked on the company premises, or in the pursuit of company goals. Gradually it became program-based, focused on 'how do we provide Employee Assistance Program (EAP) services, or wellbeing programs that provide support to employees beyond the immediate physical safety?' Now the shift is in how we design the way we work to incorporate the whole sense of wellbeing for employees. Again, this is taking flexible work way beyond the part-time, or one day from home. It is considering how work needs to be performed and how we consider the needs of individuals in designing work elements and integrating wellbeing into the way we work. This may be doing work from different locations, but it may also be how we structure the work week (e.g., working 4 days and being paid for 5).

3. A DELIBERATE FOCUS ON CULTURE

We are also starting to see that through all of this change of focus, along with the insights from the Royal Commissions and the recognition of the gender gap and toxic cultures (where we are still not dealing with issues of harassment and discrimination) - the result is that organisations need to be driving cultural change very deliberately.

This is not about just focusing on one aspect of an organisation's culture such as values on a wall, rather it is being deliberate in designing and building the culture for an organisation – from elements of risk, through to innovation, customer centricity, employee wellbeing and beyond.

Understanding what drives an organisation's culture, where it is now, where organisations want it to be and building a plan to get there - for many organisations it feels like too big a problem to face into, but organisations who get this right are recognising that it pays dividends. In customer satisfaction, revenue, and talent attraction all leading to bottom-line performance.

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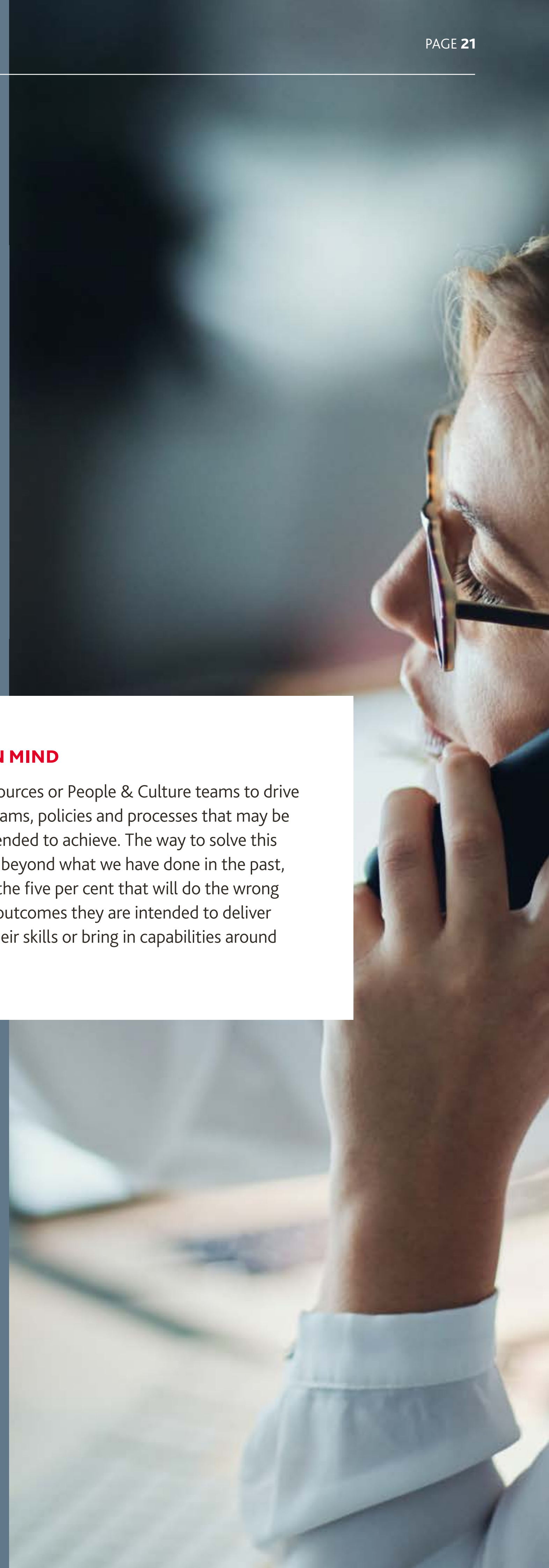


4. REDESIGNING WORKPLACES WITH THE END-USER IN MIND

Finally, to achieve all of this we are seeing the need for Human Resources or People & Culture teams to drive solutions via human-centred design – recognising that all the programs, policies and processes that may be well thought out are frequently not having the impact they are intended to achieve. The way to solve this is to truly commit to designing with the end user in mind – moving beyond what we have done in the past, letting go of forms for the sake of forms, or policies to manage for the five per cent that will do the wrong thing – and looking for ways to design solutions that will drive the outcomes they are intended to deliver on. Ultimately, this means People & Culture teams need to build their skills or bring in capabilities around human-centred design and truly effective change management.

INSIGHTS INTO THE LARGEST SECTORS FOR MID-SIZED BUSINESSES

MANUFACTURING AND WHOLESALE TRADE

The Manufacturing and Wholesale Trade combined, represent 36% of total businesses within Australia's mid-sized business market. Each sector contains twice as many businesses compared to any other industry (e.g., Financial Services 9%, Professional Services 8%). On average, Wholesale mid-sized businesses achieved a Revenue CAGR of 3.40%, while manufacturing mid-sized businesses achieved a Revenue CAGR of 2.63% over three years. The majority (88%) of these businesses are located along Australia's southeast, with 50% operating within New South Wales and 33% in Victoria.

Mid-sized businesses within each sector are most likely to be privately-owned, with 85% of Wholesale Trade businesses companies and 73% of manufacturing businesses being registered as privately-owned. Mid-sized businesses within these sectors generate large revenues, however, are less profitable than other mid-sized-market industries. On average, the Wholesale Trade businesses generate $361 million of revenue and $18 million of profit. This compares to manufacturing mid-sized businesses, where average revenue is also $361 million while average profits are lower at $14 million.

BDO Growth Index 2021 Top 5 Wholesale mid-sized businesses in terms of percentage Revenue growth.

INOVA PHARMACEUTICALS

1. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 170.48%

BAKER HUGHES

2. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 124.86%

LOUIS DREYFUS COMPANY

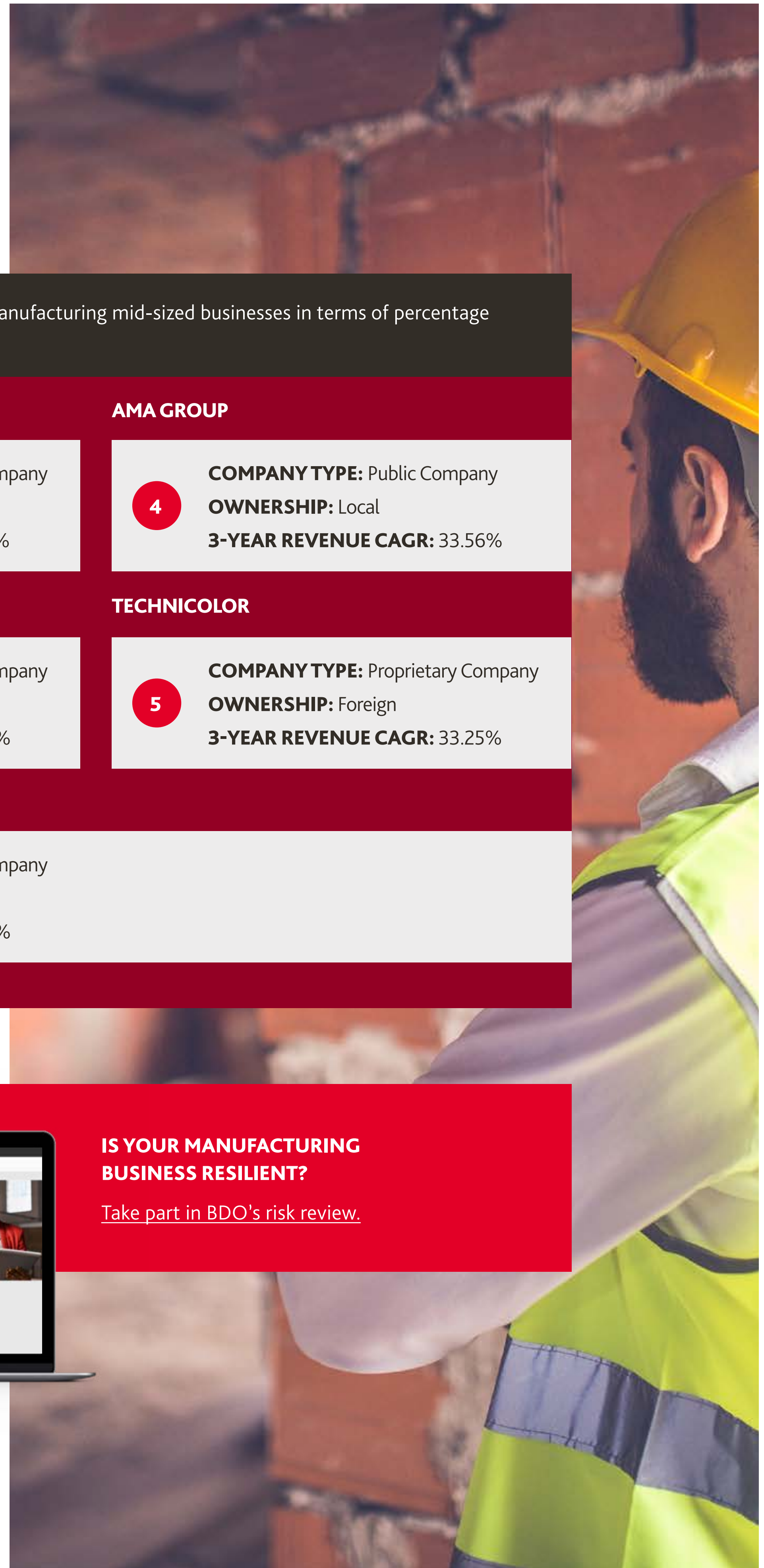
3. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 60.20%

MITSUI & CO AUSTRALIA

4. **COMPANY TYPE:** Public Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 48.61%

BOEHRINGER INGELHEIM ANIMAL HEALTH

5. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 33.99%



BDO Growth Index 2021 Top 5 Manufacturing mid-sized businesses in terms of percentage Revenue growth.

REAL PET FOOD COMPANY

1. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 44.21%

MARUBENI-ITOCHU TUBULARS OCEANIA

2. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 42.67%

KNORR-BREMSE AUSTRALIA

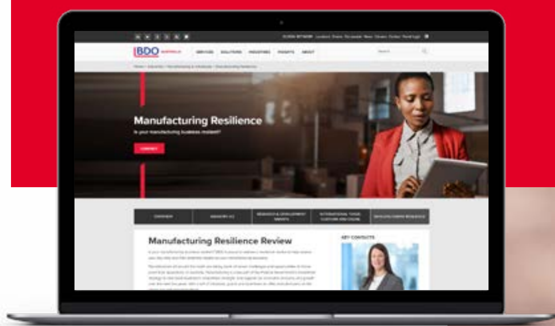
3. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 33.70%

AMA GROUP

4. **COMPANY TYPE:** Public Company
   OWNERSHIP: Local
   3-YEAR REVENUE CAGR: 33.56%

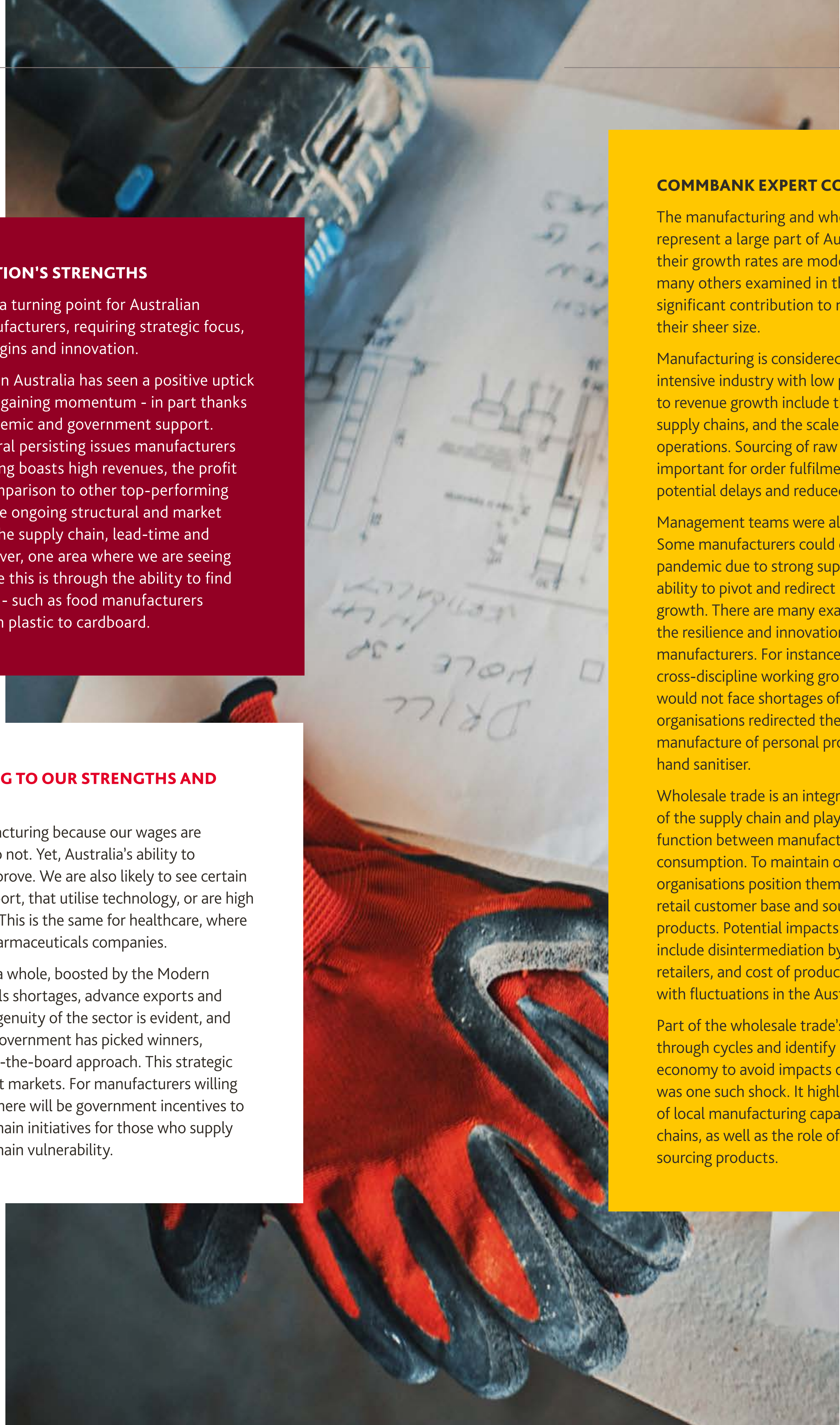
TECHNICOLOR

5. **COMPANY TYPE:** Proprietary Company
   OWNERSHIP: Foreign
   3-YEAR REVENUE CAGR: 33.25%



IS YOUR MANUFACTURING BUSINESS RESILIENT?

Take part in BDO's risk review.



MANUFACTURING AND WHOLESALE TRADE

RYAN POLLETT

National Leader, Manufacturing and Wholesale

PLAYING TO OUR NATION'S STRENGTHS

The next decade will be a turning point for Australian mid-sized business manufacturers, requiring strategic focus, sharpening of profit margins and innovation.

Overall, manufacturing in Australia has seen a positive uptick in the past year and it is gaining momentum - in part thanks to the shock of the Pandemic and government support. However, there are several persisting issues manufacturers face. While manufacturing boasts high revenues, the profit margins are lower in comparison to other top-performing sectors. This is due to the ongoing structural and market challenges – namely in the supply chain, lead-time and cost of importing. However, one area where we are seeing manufacturers overcome this is through the ability to find locally available options - such as food manufacturers changing packaging from plastic to cardboard.

MANUFACTURING IN AUSTRALIA IS NOW ABOUT PLAYING TO OUR STRENGTHS AND BEING KNOWN FOR THOSE STRENGTHS GLOBALLY

We will never be the home to high-volume, low complexity manufacturing because our wages are too high, and we enjoy economic prosperity that other countries do not. Yet, Australia's ability to differentiate itself and offer high-quality goods will see margins improve. We are also likely to see certain subsectors booming in those areas where there is government support, that utilise technology, or are high complexity, such as additive engineering and niche manufacturing. This is the same for healthcare, where Australia is a leading location for early-stage biotechnology and pharmaceuticals companies.

There has been excellent progress in manufacturing in Australia as a whole, boosted by the Modern Manufacturing Strategy - demonstrating the need to overcome skills shortages, advance exports and utilise technology to innovate and seek improved efficiency. The ingenuity of the sector is evident, and innovation and the uptake of technology are being rewarded. The government has picked winners, supporting six, very specific subsectors rather than taking an across-the-board approach. This strategic approach is driven by the issues and the need to advance our export markets. For manufacturers willing to take the plunge into Industry 4.0 and move up the value chain, there will be government incentives to commercialise ideas and adopt technology. There are also supply chain initiatives for those who supply critical products and seek support to address an identified supply chain vulnerability.

COMMBANK EXPERT COMMENTARY ON MANUFACTURING AND WHOLESALE TRADE

The manufacturing and wholesale trade industries represent a large part of Australia's economy. While their growth rates are modest compared with many others examined in this report, they make a significant contribution to national GDP by virtue of their sheer size.

Manufacturing is considered to be a highly capital-intensive industry with low profit margins. Keys to revenue growth include the strength of their supply chains, and the scale and efficiency of their operations. Sourcing of raw materials is particularly important for order fulfilment and managing potential delays and reduced local or global supply.

Management teams were also tested during 2020. Some manufacturers could operate through the pandemic due to strong supply chains and their ability to pivot and redirect resources to support their growth. There are many examples that demonstrate the resilience and innovation of Australian manufacturers. For instance, the government formed cross-discipline working groups to ensure Australia would not face shortages of ventilators, while other organisations redirected their resources to the manufacture of personal protective equipment and hand sanitiser.

Wholesale trade is an integral and critical piece of the supply chain and plays a strong facilitation function between manufacturing and delivery/consumption. To maintain or grow revenue, wholesale organisations position themselves with a large stable retail customer base and source niche or specialised products. Potential impacts for revenue growth include disintermediation by both manufacturers and retailers, and cost of product and operations, together with fluctuations in the Australian dollar.

Part of the wholesale trade's role is to manage through cycles and identify lead indicators in the economy to avoid impacts of shocks. The pandemic was one such shock. It highlighted the importance of local manufacturing capability and strong supply chains, as well as the role of wholesale trade in sourcing products.

Similarly, retailers turned to their wholesalers to source other products where demand surged, such as office furniture, computer monitors and home gym equipment. This required strategic thinking by management teams to determine whether innovation locally or looking to different markets overseas was the solution.

Given the pressure on profit margins, expense management, scale, and efficiency are central to ongoing profitability. Effective management of cost of goods sold and of operations is important. Currently a big challenge lies in the rising cost of transport and logistics amid elevated demand globally. Technology, including automation, is playing a growing role in improving efficiencies. This necessitates sound investment decisions along with upskilling of employees. The government recognises the importance of these industries and has extended support through a number of initiatives and grants. The intention is to support local supply chains through scale, global competitiveness and investment in advanced technology.

Looking ahead, investment in technology to capture innovation and drive efficiencies, along with securing a workforce with the right skills, will determine success. Risk management, in particular, de-risking supply chains through diversification, is another factor that will set the most successful businesses apart from their peers. Businesses need the ability to fulfil orders fast, as well as to hold distribution rights over niche and specialised products. Manufacturing and wholesale trade are linchpins of the Australian economy. The stronger and more successful they are, the better Australia will be on the world stage.

COLLEEN HEGARTY

National Director – Specialised Industries Business Banking

Commonwealth Bank

FINANCIAL SERVICES

The Financial Services sector is the third-largest industry by business count (9%) and the largest profit generator.

During the most recent reporting period, Australia's mid-sized Financial Services businesses recorded a total PBT of $3.7 billion. This was a result of a total revenue for mid-sized businesses across the industry equal to $27 billion.

Businesses within the Financial Services sector are most likely to be publicly listed companies (64%), rather than privately owned (27%) or otherwise structured (9%).

The industry has been experiencing growth over the past three years with average revenue GACR and PBT CAGR increasing at rates of 6.65% and 0.54% respectively.

BDO Growth Index 2021 Top 5 Financial Services mid-sized businesses in terms of percentage Revenue growth.

ZIP

1

COMPANY TYPE: Public Company
OWNERSHIP: Local
3-YEAR REVENUE CAGR: 101.44%

AFTERPAY TOUCH

2

COMPANY TYPE: Public Company
OWNERSHIP: Local
3-YEAR REVENUE CAGR: 98.84%

COLUMBUS CAPITAL

3

COMPANY TYPE: Proprietary Company
OWNERSHIP: Local
3-YEAR REVENUE CAGR: 46.02%

GEN RE

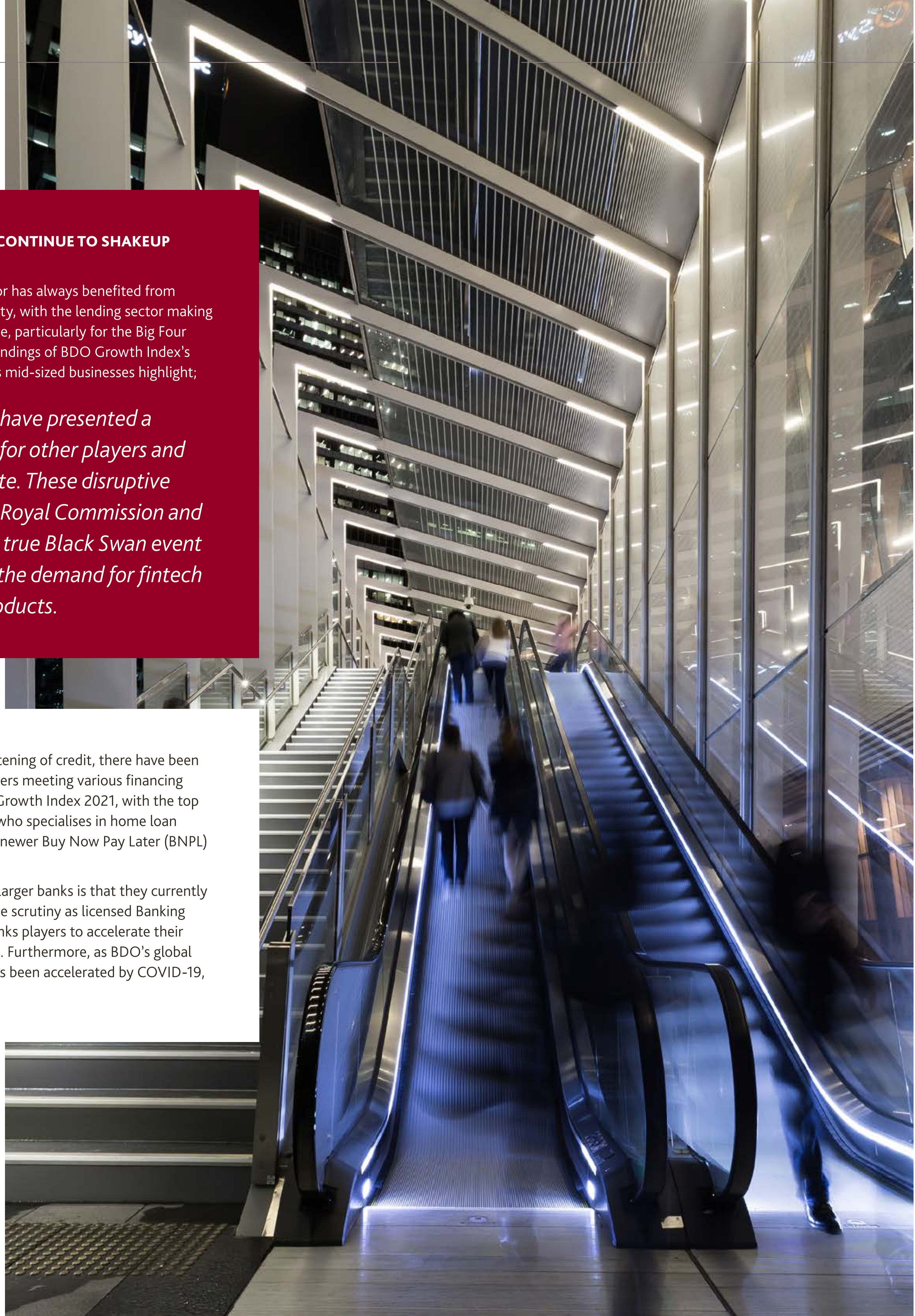
4

COMPANY TYPE: Public Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 39.15%

GEN RE LIFE AUSTRALIA

5

COMPANY TYPE: Public Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 32.06%



FINANCIAL SERVICES

TIM AMAN

National Leader,
Financial Services

DISRUPTIVE FORCES CONTINUE TO SHAKEUP THE SECTOR

Australia's financial sector has always benefited from Australia's love of property, with the lending sector making up the majority of income, particularly for the Big Four banks. However, as the findings of BDO Growth Index's top five financial services mid-sized businesses highlight;

Disruptive forces have presented a unique backdrop for other players and sectors to compete. These disruptive forces being, The Royal Commission and the Pandemic - a true Black Swan event that accelerated the demand for fintech and insurance products.

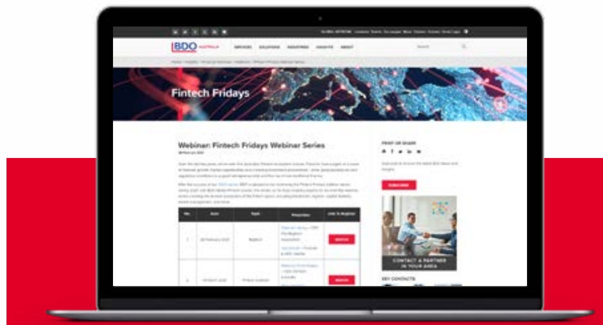
Since the findings of the Royal Commission and the resulting tightening of credit, there have been dramatic changes to the lending space, resulting in non-bank lenders meeting various financing needs for consumers. This is reflected in the findings of the BDO Growth Index 2021, with the top three Financial Services businesses including Columbus Capital – who specialises in home loan products for wholesale and retail - as well as market darlings, the newer Buy Now Pay Later (BNPL) models, Zip pay and Afterpay Touch.

The distinct difference in these types of lenders compared to the larger banks is that they currently aren't APRA-regulated entities and therefore do not have the same scrutiny as licensed Banking institutions. These conditions have allowed the BNPL and non-banks players to accelerate their position over the past few years, particularly regarding innovation. Furthermore, as BDO's global research – Rethink Fintech - has found, the adoption of Fintech has been accelerated by COVID-19, as consumers demand seamless digital products.

The top five also reflect the impact of Fintech on the Financial Services sector - who differentiate themselves through technology and customer experience. COVID-19 saw the acceleration of the demand for Fintech products, with consumer behaviours through digital means now expected, and being met by smaller, nimbler fintech's. Overall, Fintech IPOs are expected to grow - in 2020 there were seven Fintech IPOs in Australia valued at $353 million and, accounting for 7% of all primary capital raised across all sectors. For the larger players, Fintech will be a way to grow without having to reinvent the wheel, by opening their war chests to acquire those who fill their customer experience gaps. Regtech will also present the banks with a way to ensure they are compliant and prevent the need for further, costly remediation work.

Lastly, the disruption of the Pandemic highlighted that a Black Swan event can occur, increasing the need for insurance coverage. Further, climate change effects are seeing organisations increase their threats, particularly against natural disasters. As Australia battles with the ongoing drought, floods and the Pandemic, the need for general insurance will grow, with IBIS World projecting the General Insurance industry's revenue to rise over the next five years to 2026.

Overall, while Financial Services generates more profit than any other sector by far, the sector as a whole will be needing to look at their cost pressures, customer-centricity and continuous innovation, now and into the future.



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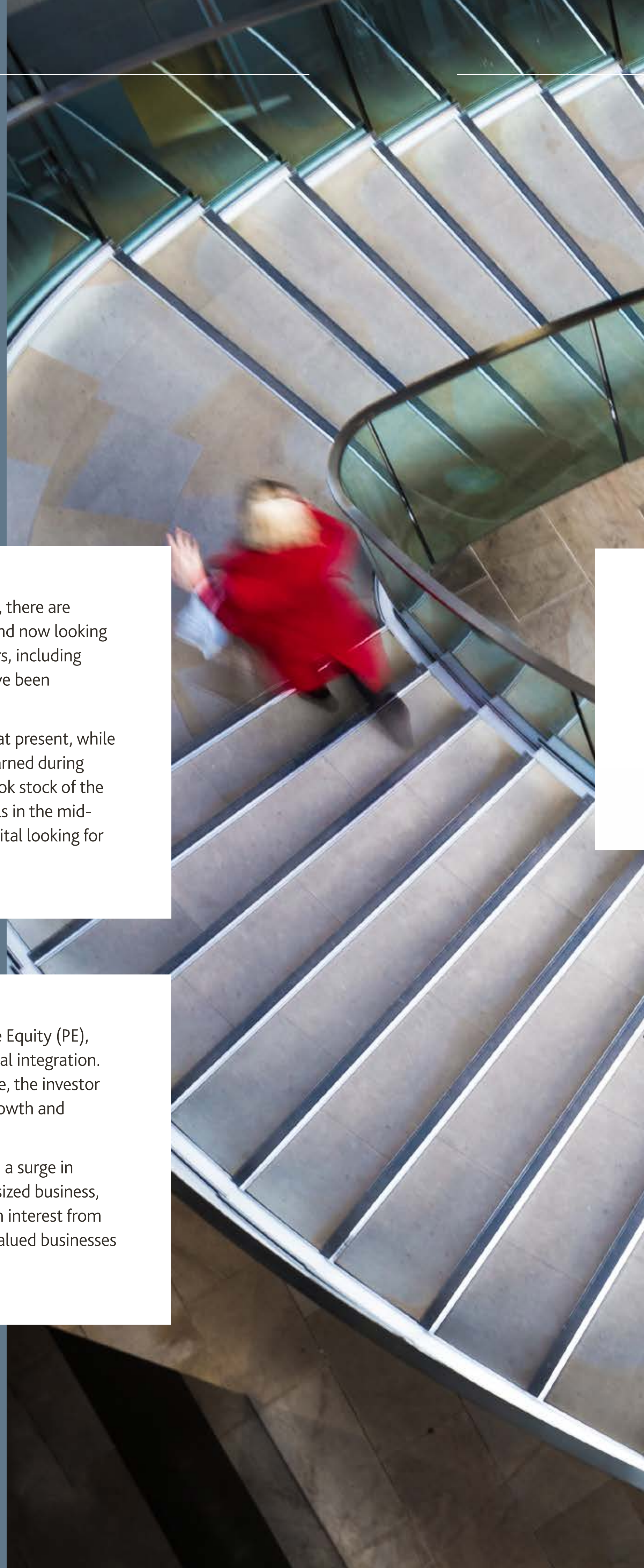
FUTURE OUTLOOK - A BUSINESS PERSPECTIVE



FUNDING FOR GROWTH

STEVEN SORBELLO
National Leader, Corporate Finance

COVID-19 has impacted many mid-sized businesses in different ways. In very broad terms, there are operators within the hospitality and tourism sectors that have been negatively impacted and now looking forward to better days ahead with the rise in domestic tourist numbers. Many other sectors, including financial services, manufacturing and wholesale, retail and real estate and construction have been experiencing positive trading conditions and good growth in recent months.

Currently, we are observing that businesses are capitalising on short-term opportunities that present, while at the same time adjusting their business models to ensure resilience due to the lessons learned during the COVID-19 pandemic. Some deals were delayed last year as markets and purchasers took stock of the enormity of change; however, Mergers and Acquisition (M&A) activity is back to good levels in the mid-sized business market. Largely in part due to good trading conditions, large amounts of capital looking for returns and a very low interest rate environment.

Mid-sized business owners continue to fund their growth through investments from Private Equity (PE), allowing them to invest in various types of growth such as geographical expansion or vertical integration. PE investment typically ranges across periods of approximately three to five years; therefore, the investor will seek out businesses that are investing in and have adopted to change, are poised for growth and resilient to further changes that may come out of the woodwork.

In Australia, the PE market is a developed and deep market. In the past year, there has been a surge in capital raising activity from PE firms, with investors particularly interested in growing mid-sized business, ranging across technology, healthcare and food and agriculture sectors. There has also been interest from overseas PE firms who are targeting the high-quality Intellectual Property (IP) and better-valued businesses present in the Australian market.

This increasing PE activity in the mid-sized business market means competition is strong and prices are shifting upwards. To take advantage of this dynamic, business owners need to prepare. If they haven't already, they should be considering their succession plans, as how they exit may dictate their next move in terms of growth. Going through a process to ensure that they are investor-ready will not only be valuable in the lead up to a transaction but will also ensure they are actively considering and responding to market changes and building a more resilient business.

KNOWING YOUR NEXT MOVE

Demystify Private Equity

PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES

The fourth-largest industry among mid-sized businesses in Australia is Professional Services. Professional, Scientific and Technical Services represent 8% of businesses within the market.

The sector is also ranked fourth in terms of total revenue generated ($24 billion) and is the seventh most profitable ($1.1 billion) after other key sectors such as Utilities ($2.8 billion), Manufacturing ($2.3 billion) and Mining ($1.3 billion).

Mid-sized businesses within the Professional Services sector are only marginally more likely to be privately operated (50%) rather than be public companies (46%).

There is truly a story of contradiction within this sector. On the one hand, significantly driven by changing consumer buying behaviours caused by the COVID-19 pandemic, there is a significant increase in online activity driving revenue growth in this sector. However, there is equally much difficulty, being felt by the sector as some services have been drastically impacted and virtually decimated, by comparison. Whilst we notice good revenue growth as reflected by the few examples below, profitability growth is substantially lower across the sector for the majority of mid-sized businesses in the broader Professional, Scientific and Technical services sector.

BDO Growth Index 2021 Top 5 Professional, Scientific and Technical Services mid-sized businesses in terms of percentage Revenue growth.

JCDECAUX AUSTRALIA

1
COMPANY TYPE: Proprietary Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 131.84%

AMAZON WEB SERVICES AUSTRALIA

2
COMPANY TYPE: Proprietary Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 67.98%

LOCKHEED MARTIN AUSTRALIA

3
COMPANY TYPE: Proprietary Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 44.35%

APPEN LIMITED

4
COMPANY TYPE: Public Company
OWNERSHIP: Local
3-YEAR REVENUE CAGR: 79.31%

VERBREC

5
COMPANY TYPE: Public Company
OWNERSHIP: Local
3-YEAR REVENUE CAGR: 66.96%

COMMBANK EXPERT COMMENTARY ON THE PROFESSIONAL SERVICES SECTOR

Our research has found that Professional Services firms were early innovators and suggests there is a link between innovation and financial performance. The industry's 5% compound annual growth in profit before tax over the past three years is the second highest rate of the 19 industries covered in this Growth Index report. This indicates that the heavy investment in technology and developing employees' skills is paying dividends.

Within the Professional Services industry, we focus on the Accounting and Legal sectors. For the past six years our annual Accounting Market Pulse and Legal Market Pulse reports have tracked business conditions and firms' areas of investment and strategic effort. From these we know that sentiment among legal firms peaked in FY18 when the Royal Commissions into Financial Services and Aged Care caused a huge spike in demand for legal services. Since the onset of the pandemic, accounting services have been highly sought after as businesses navigated the rapidly changing landscape and the numerous government support and stimulus measures.

Most legal and accounting firms entered the pandemic in a strong position and have emerged largely unscathed . The operating environment is as dynamic as ever and coronavirus has only added to the ongoing expectation among clients that legal services are delivered faster, more cost-effectively and add value far beyond what they have traditionally. Similarly, the experience of coronavirus has accelerated trends already underway in the accounting sector and heightened expectations of clients and staff around technology.

Accounting and legal firms are responding to clients' evolving needs by broadening their service offering. In the legal sector, firms are developing expertise in areas such as technology and cybersecurity because that is where their clients want advice. The accounting firms that are setting the pace of recovery are focused on developing their expertise in niche areas and building out their range of accounting and accounting-related services. This expanded offering will be one source of growth.

To make the most of the opportunities, firms need more talent. This is particularly challenging amid international border closures. Hence many firms plan to acquire other firms over the next two years, principally to build capabilities and staff.

BELINDA HEGARTY
Executive Manager – Professional Services & Healthcare, Business Banking
Commonwealth Bank

DANIELA PASINI
National Director – Professional Services, Business Banking
Commonwealth Bank

[1] https://www.commbank.com.au/content/dam/commbank-assets/institutional/2019-03/professional-services-report.pdf *page 7*

[2] https://www.commbank.com.au/content/dam/commbank-assets/institutional/2019-03/professional-services-report.pdf *page 8*

[3] https://www.commbank.com.au/content/dam/commbank-assets/business/insights/docs/legal-market-pulse-nov-2020.pdf *page 24*

[4] https://www.commbank.com.au/content/dam/commbank-assets/business/insights/docs/amp-report-april-2021.pdf *page 6*

[5] https://www.commbank.com.au/content/dam/commbank-assets/business/insights/docs/amp-report-april-2021.pdf *page 18*

CONSTRUCTION

Historically influenced by Australia's growing population and supported by continued government investment, average revenue CAGR has been growing at a steady rate within the construction industry. The construction industry, which represents 6% of all mid-sized businesses in Australia, has seen average revenue CAGR increases of approximately 10%. However average CAGR in terms of profitability is not as strong, reflecting a 3% reduction in profitability growth rates across the most recent 3 years.

The geographic distribution of mid-sized construction companies is slightly different from the regular distribution of mid-sized businesses. While New South Wales still contains the largest proportion of construction companies (30%), it is closely followed by Western Australia (26%) and Victoria (22%).

Two in three construction mid-sized businesses are privately owned companies (66%). The remaining third (33%) are public companies.

Construction companies within the mid-sized market are almost twice as likely to be Australian-owned and operated compared to foreign-owned companies in the sector. Nearly two-thirds (63%) of construction companies in the mid-sized market are Australian-owned compared to 37% which are owned by overseas parent organisations.

COMMBANK EXPERT COMMENTARY ON CONSTRUCTION

Construction is one of the country's most important sectors, spanning residential, non-residential and civil construction, as well as site preparation and other building and installation trade services. That makes it one of Australia's largest employers. It was deemed an essential service during the pandemic, so most industry participants were able to trade through the last year or so to varying degrees. The sector as a whole is typically cyclical, with low profit margins.

The industry has benefitted from one of the fastest growing populations of the advanced economies due to government immigration policies to attract skilled workers. However, population growth, or lack thereof, is now considered a risk to the outlook of the sector given the forced border closures and uncertainty around reopening timeframes. Other drivers of activity in recent years include record low interest rates, public and private sector investment in infrastructure, and periodic federal and state government grants for first home buyers.

Housing starts reached a record 120,000 in 2018 , before softening in 2019 due to a mix of affordability and stock and then rebounding in 2020 . New drivers of demand to emerge during the pandemic are returning ex-patriates, plus a shift in demand from inner-city apartments to detached homes further away from the CBD and in regional areas.

The HomeBuilder grant has been effective in bringing forward demand and achieving the government's objective of driving investment in housing and supporting the construction industry and its entire supply chain, most of which is locally produced. These new houses will continue to be delivered over the next 12 to 24 months, albeit builders are expected to experience heightened margin pressures over this period due to increasing demand and input costs (including scarcity of labour).

The most successful non-residential construction companies are those that are diversified and have been able to pivot into the new areas of demand. These also include the growth in data centres, warehouses and logistics facilities to support the coronavirus-assisted boom in e-commerce, as well as the provision of social infrastructure such as defence, schools, hospitals and prisons.

Strong relationships with developers are also closely tied to success. We recently saw increased collaboration between sub-contractors and contractors, as well as between contractors and developers, to comply with coronavirus-related regulations and address supply chain issues to maintain productivity and cash flow. The ability to smoothly transition to a virtual office due to prior investment in cloud and enterprise resource planning (ERP) software is another feature that differentiates the outperforming businesses.

There is uncertainty around the global infrastructure outlook given pandemic-induced structural changes to infrastructure demand, as well as challenges around skilled labour and availability of plant and equipment due to global supply chain disruptions. Companies that invested early and have the equipment to hand have a competitive advantage when tendering for 'shovel-ready' infrastructure projects in the coming years.

ROB MARTIN
Relationship Executive – Construction Services
Major Client Group, Business Banking
Commonwealth Bank

https://www.mortgagebusiness.com.au/breaking-news/15399-2021-to-see-record-detached-housing-starts
https://www.mortgagebusiness.com.au/breaking-news/15353-detached-housing-approvals-at-record-highs

BDO Growth Index 2021 Top 5 Construction mid-sized businesses in terms of percentage Revenue growth

BOSKALIS AUSTRALIA

1
COMPANY TYPE: Proprietary Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 289.53%

DAIWA HOUSE AUSTRALIA PTY LTD

2
COMPANY TYPE: Proprietary Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 149.96%

SRG GLOBAL

3
COMPANY TYPE: Public Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 47.43%

J & P RICHARDSON

4
COMPANY TYPE: Proprietary Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 41.62%

JAN DE NUL (AUSTRALIA)

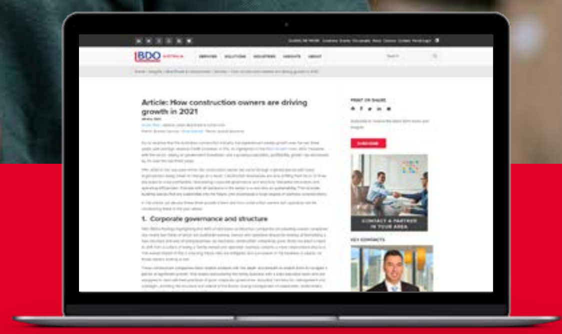
5
COMPANY TYPE: Proprietary Company
OWNERSHIP: Foreign
3-YEAR REVENUE CAGR: 39.09%

EXPERT INSIGHTS

"With 2020 in the rear-view mirror, the construction sector has come through a pivotal period with many organisations being driven to change as a result of this period. Construction businesses are now shifting their focus to improving risk management frameworks, disruptive innovators and operating efficiencies – with a lens of sustainability overarching all of these initiatives."

ANDRES REITH
National Leader,
Real Estate and
Construction

ELYSIA ROTHWELL
Partner,
Audit



HOW CONSTRUCTION OWNERS ARE DRIVING GROWTH IN 2021

View more

RETAIL

The BDO Growth Index 2021 has also revealed that Retail Trade is another key contributor to the Australian market for mid-sized businesses.

Representing 6% of mid-sized businesses and 7% of the market's total revenue, Retail Trade is the sixth largest industry sector. During the most recent reporting period, retail trade businesses within the Australian mid-sized business market generated revenues of $21 billion, growing at an average revenue CAGR of 26.59%. This is the second fastest-growing average revenue CAGR, (and equal to revenue growth noticed in the Transport, Postal and Warehousing sector) with the retail industry growing more than twice as fast as the next fastest industry, Accommodation and Food Services (12%).

Average PBT across the sector is lower than some of the other key sectors at $611 million, ranking it as the 11th most profitable industry. On average, mid-sized business retailers earn a PBT of $11 million per annum.

Nearly three-quarters of mid-sized Retail Trade businesses are privately owned and operated (72%).

The retail trade sector is dominated by Australia's eastern states with nearly half of all mid-sized retailers located in New South Wales (48%). There is also a comparably large proportion of retailers in Victoria (39%) compared to any other states such as Queensland (9%) or Western Australia (4%).

BDO Growth Index 2021 Top 5 Retail Trade mid-sized businesses in terms of percentage revenue growth

Rank	Company	Company type	Ownership	3-year revenue CAGR
1	AMAZON AUSTRALIA	Proprietary Company	Foreign	549.81%
2	CONTI TRADE AUSTRALIA	Proprietary Company	Foreign	263.02%
3	TEMPLE & WEBSTER	Public Company	Local	55.86%
4	NEW AIM	Public Company	Local	51.98%
5	DFS AUSTRALIA	Proprietary Company	Foreign	51.09%

COMMBANK EXPERT COMMENTARY ON RETAIL

Australia's retail sector is at once mature and one of the most dynamic, fast-moving industries in the country. While it benefits from an undercurrent of non-discretionary spending and has a far less concentrated customer base than other industries, it is hyper-competitive, and its fortunes are tied to consumer sentiment and shopping behaviours.

The retail market base also tends to be steady. Overall growth is generally driven by population growth or significant innovations such as the computer or smart phone revolutions. That means that retailers with above-average revenue are likely taking market share from others because they are doing a better job at capturing sales.

CommBank's research into the retail sector showed time and time again that more successful retailers are typically aligned with customer preferences and offer a better shopping experience across channels. They tend to make decisions more quickly and incorporate a culture of innovation. These are prominent features of mid-market retailers.

With a largely finite revenue pool, cost control is one key to profitability. Retailers' biggest costs are rent, stock and staff, all of which are difficult to reduce. Today's retailers must therefore be nimble and able to effectively manage their supply chains and warehouses, a requirement that became more important amid the disruption of the pandemic.

Our new research series, Consumer Insights, finds that in-store shopping overwhelmingly remains the preferred channel in all but a few retail categories. Well-located and easily accessible stores are essential for retailers to be discovered by new customers. However, the pandemic has also accelerated the growth of online retail, with consumers placing greater value on convenient and reliable delivery options and frictionless online shopping experiences. As a result, retailers require strong omni-channel strategies.

Our Retail Insights research series also found that retailers must also focus on differentiating themselves in the market. Vertically integrated businesses are harder to compete with because they control design, production and distribution. In contrast, retailers of commoditised, low margin goods sourced from wholesalers may now find themselves competing against online marketplaces.

The retailers that succeed in the future will likely be those with a differentiated offering or purpose, have a seamless omni-channel presence, and really understand what their customers want. That will position them to effectively compete in a market where consumer needs and expectations are constantly evolving.

JERRY MACEY
Head of Consumer and Diversified Industries
Business Banking
Commonwealth Bank

FUTURE OUTLOOK - A BUSINESS PERSPECTIVE

DISTRESS AND CLOSURE STILL ON THE CARDS

ANDREW FIELDING
National Leader, Business Restructuring

COVID-19 has changed the way we live, work and interact. However, the global pandemic is far from over and businesses need to continue to evolve and adapt to respond to ever changing domestic and international markets and face the reality that 'the way it was' may never be the same again.

As with any historical market disruptor, COVID-19 has seen 'winners' and 'losers' across all sectors. Nationwide lockdowns resulted in hospitality/tourism being one of the hardest hit industries with venues and operators unable to trade under traditional operating models. Businesses were forced to change operations overnight and come up with new ways to attract customers, many offering take home meals and drive throughs to encourage local support. Even with the doors open again, social distancing regulations continue to hinder the hospitality sector.

The winners were those businesses who profited from "sugar hit" sales with many Australians diverting their spending to home renovations, vehicle upgrades, caravans and camping gear. These businesses grew rapidly, with some expanding operations, borrowing more funds and hiring extra staff to keep up with the demand. Major stock shortages due to disruption in the international supply chain is now a major concern.

Sustainable growth is linked to a successful national vaccination programme and the reopening of international borders. Whilst many Australians have rediscovered local travel since domestic borders reopened, domestic travel cannot fully compensate for the loss in international tourism. Locals do not typically spend as much as international tourists, and many high end/luxury operators are continuing to suffer as a result. It may still be years until international borders are fully open again and whether industries like tourism, international education and arts/entertainment can sustain themselves during this timeframe remains unknown.

The International Monetary Fund has recently announced that the Australian economy has outperformed all major advanced economies over the past year and is expecting the economy to grow by 4.5% this year and 2.8% in 2022. It is impossible to see how this success would have been achieved without the Federal and State Governments assistance packages worth over $350 billion. We now wait to see what the longer-term impact will be with large numbers of anticipated 'zombie companies' and businesses uncertain in relation to what their future labour requirements will be.

We have not yet seen the tsunami of insolvency appointments that was predicted post COVID-19, this is largely due to businesses receiving Government support or finance deferrals. We expect a steady incline of insolvency appointments as underperforming businesses face pressure from creditors and financiers now the Government support has ceased.

As competition continues to increase in the finance sector, banks simply cannot allow non-performing loans to continue. There will also be opportunities for businesses who act early to be saved through restructuring or sale options.

Looking forward to the next 5 years, it's near impossible to forecast the state of the economy. As trends and markets continue to evolve and change, we expect to see distress and closure of some businesses, and opportunities and growth for others. The businesses that will survive are those that are nimble, open minded to change, and have the ability to adapt their business model to a constant changing environment.

APPENDIX

DEFINING MID-SIZED BUSINESSES IN AUSTRALIA

A clear definition of mid-sized businesses in Australia remains a challenge. Depending on context, various bodies classify organisations differently. For example, the Australia Tax Office (ATO) classify organisation by revenues, whereas other bodies such as the Australian Bureau of Statistics (ABS) classify organisation size by employee count and banks for example, classify businesses in terms of debt potential.

For the purpose of the BDO Growth Index 2021, we have continued to use the expanded market definition outlined in the 2018 and 2019 report. This definition includes organisations with revenues between $10 million and $1 billion. When we define organisations in terms of revenue ranges, listed below, we look at the average revenue over the most recent 3-year period for trends.

This is to gain a larger and more robust sample size; take natural inflationary growth into consideration and align our definition with other global definitions.

Given the broad definition for mid-sized businesses, we have reduced the market further to include five sub-revenue categories, as follows:

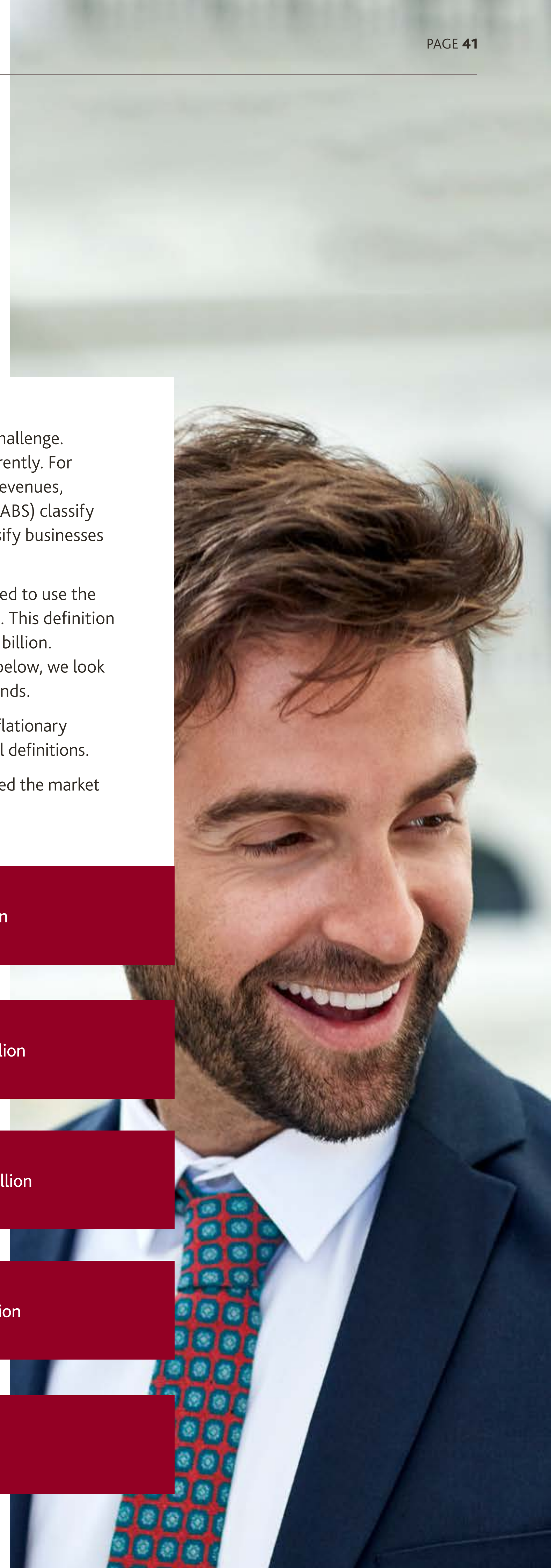
MICRO: revenues above $10 million and up to $100 million

LOWER: Revenues above $100 million and up to $250 million

MIDDLE: Revenues above $250 million and up to $500 million

UPPER: Revenues above $500 million and up to $750 million

LARGE: Revenues above $750 million and up to $1 billion



ABOUT BDO

BDO is a trusted adviser to client's looking for Audit, Tax and Advisory services.

As one of the world's leading Audit and Accounting organisations, we have clients of all types and sizes from large corporate organisations to private business, entrepreneurs and individuals across an array of industry sectors.

We are guided by our values that are the foundation of what we deliver – **IDEAS I PEOPLE I TRUST**. This is about: delivering ideas and advice that create value; quality-driven people who are motivated by providing exceptional client service; and being trusted to get the job done.

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With 215 Partners and over 1,800 staff, BDO in Australia has 10 offices located across Australia.

1,851 PEOPLE

10 OFFICES

215 PARTNERS

FIGURES TAKEN AS AT 01 APRIL 2021

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91,054+ PEOPLE

1,658 OFFICES

167 COUNTRIES

CURRENT AS AT DECEMBER 2020

To download our capability statement
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NETWORK OF THE YEAR AWARD WINNER
INTERNATIONAL ACCOUNTING BULLETIN
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ABOUT COMMBANK

Commonwealth Bank is Australia's leading provider of integrated financial services, including retail, premium, business and institutional banking, funds management, superannuation, insurance, investment and share-broking products and services.

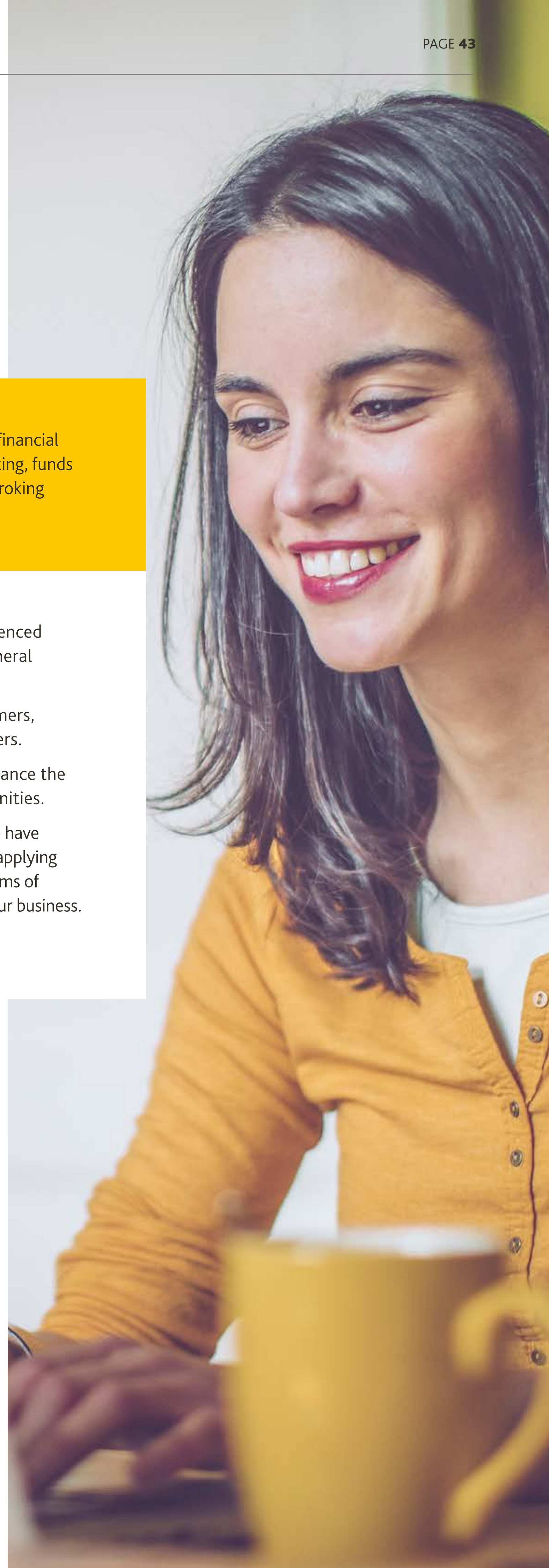
Founded under the Commonwealth Bank Act in 1911, we commenced operations in 1912, empowered to conduct both savings and general banking business.

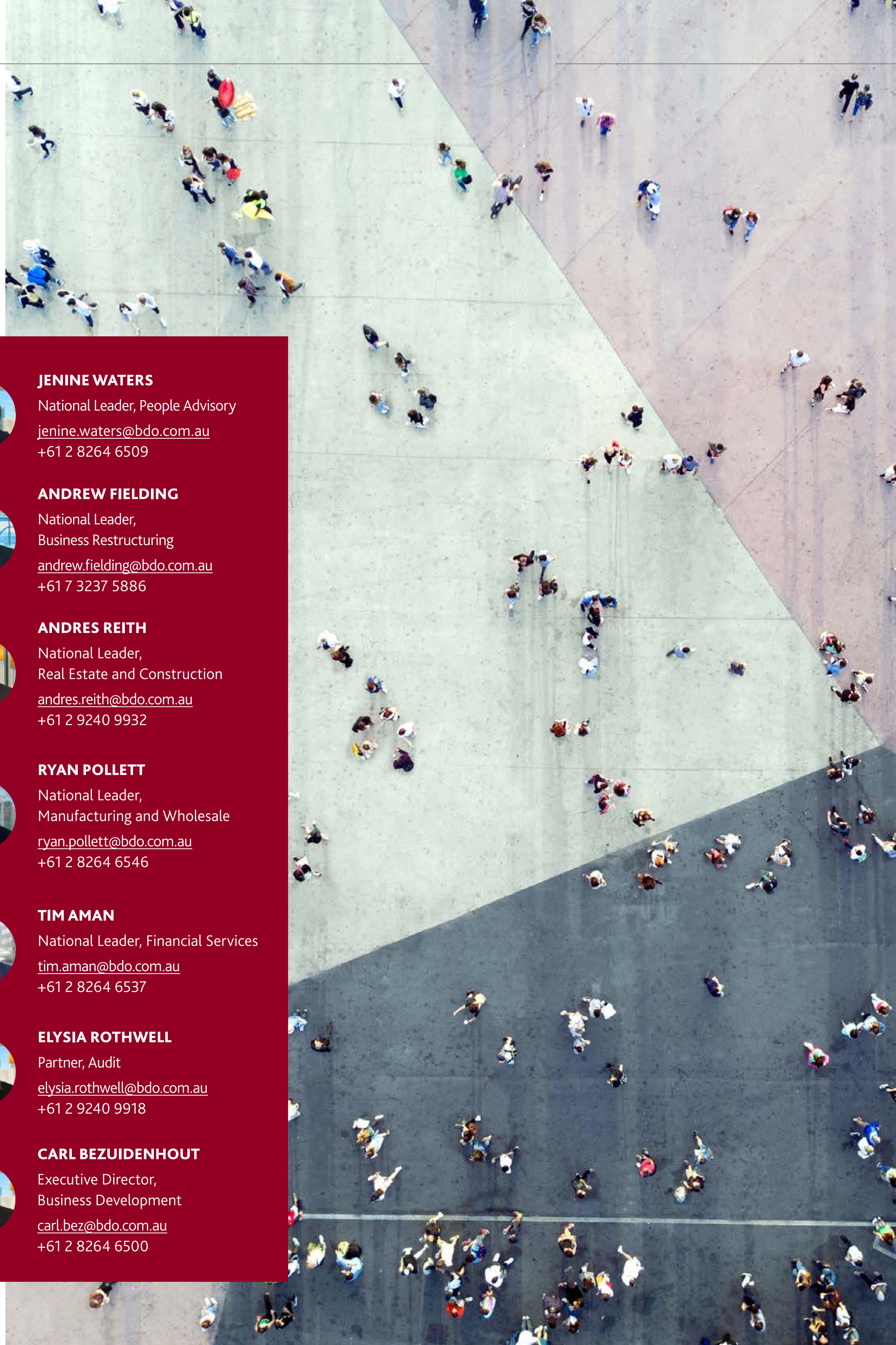
Today, we've grown to a business that serves 15.9 million customers, employs 48,900 people and has more than 800,000 shareholders.

We offer a full range of financial services to help secure and enhance the financial wellbeing of Australia's people, businesses and communities.

We understand that not all businesses are the same. That's why we have specialised teams that focus on what matters to your business. By applying unique financial insights and customer focused technology, our teams of industry experts are able to support the ambitions and vision of your business.

Visit commbank.com.au for more information.





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