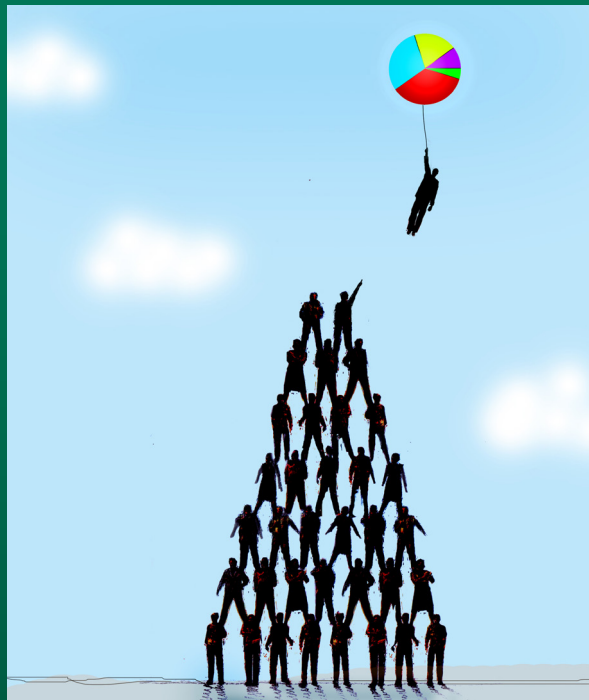


THE 2015 AUSTRALIAN VALUE CREATORS REPORT

CREATING VALUE THROUGH GROWTH IN UNCERTAIN TIMES

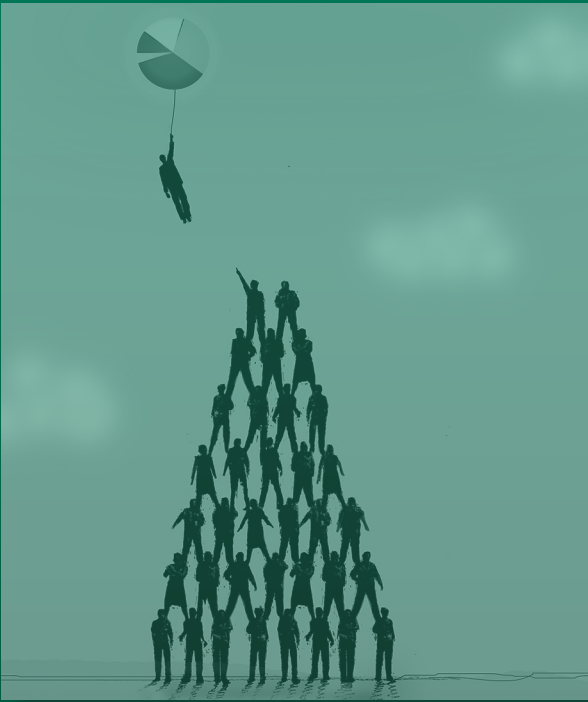
A SURVEY OF ASX 200 COMPANY PERFORMANCE



BCG

THE BOSTON CONSULTING GROUP

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients in all sectors and regions to identify their highest-value opportunities, address their most critical challenges, and transform their businesses. Our customised approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organisation. This ensures that our clients achieve sustainable competitive advantage, build more capable organisations, and secure lasting results. Founded in 1963, BCG is a private company with 82 offices in 46 countries. For more information, please visit [bcg.com](https://www.bcg.com).



THE 2015 AUSTRALIAN VALUE CREATORS REPORT

CREATING VALUE THROUGH GROWTH IN UNCERTAIN TIMES

A SURVEY OF ASX 200 COMPANY PERFORMANCE

NICHOLAS GLENNING

DAMIEN WODAK

YAN ZHU

CONTENTS

| | |
|----|---|
| 4 | EXECUTIVE SUMMARY |
| 6 | THE RETURN OF UNCERTAINTY IN 2015 |
| 10 | SUBDUED MARKET EXPECTATIONS |
| 13 | THE RETURN OF THE IPO |
| 16 | WHO ARE AUSTRALIA'S STRONGEST VALUE CREATORS? |
| 19 | HOW DO THEY CREATE VALUE? |
| 22 | THE BEST VALUE CREATION STRATEGY |
| 24 | APPENDIX 1: ASX 200 MARKET CAPITALISATION BY INDUSTRY SECTOR |
| 25 | APPENDIX 2: TSR PERFORMANCE BY INDUSTRY SECTOR |
| 26 | APPENDIX 3: MARKET EXPECTATION ANALYSIS METHODOLOGY |

PREFACE

SINCE IT WAS FOUNDED in 1963, the Boston Consulting Group (BCG) has focused on helping clients create competitive advantage. This has involved analysing the drivers of value creation for clients across all industries. Our global Value Creators Report series analyses the world's top-performing companies each year to build an understanding of what drives the performance of leading players across all industries. Each year in the Australian Value Creators Report, we look at how our economy and market are performing relative to global peers, how different sectors are performing within Australia, and which companies are creating the most value. We also share our latest insights on value creation strategy.

So, why do some companies create more value than others? What exactly do these successful companies do to sustain this edge? What should Australia's CEOs, CFOs and managers do to drive their company's next wave of growth?

EXECUTIVE SUMMARY

IN THE 2014 *BCG Australian Value Creators Report*, we observed that the Australian market had experienced a brief return of investor confidence and optimistic expectations.

In contrast, expectations fell in 2015 due to the uncertain outlook for the Australian and global economies. Yet, strong companies still created superior value despite the challenging macro environment.

The Australian economy was subdued in 2015 and it was not alone. With the slowdown in China, and other local and global risks to economic growth, the Reserve Bank of Australia (RBA) kept the cash rate at an historic low of 2.0%.

The performance of the ASX 200, measured by total shareholder return (TSR), fell significantly in 2015¹, similar to the US market but significantly below Japan and Europe. The ASX 200's five-year performance was also well below other major developed markets.

Our analysis showed that the ASX 200's profit growth and cash flow returns were in line with global peers, and underperformance was explained by a negative PE multiple change reflecting concerns over the outlook for earnings growth.

The divergence in the ASX 200's performance by sector was striking. Financials and Mining/materials, the two core pillars, drove the underperformance. Financials delivered a modest return, while Mining/materials continued its underperforming trend. The best performing sectors in 2015 were Industrials and Healthcare.

IPOs featured much more strongly on the local exchange in recent years. We examined their performance and found that IPOs issued in 2013 or later outperformed the benchmark. In addition, PE-sponsored IPOs delivered significantly better performance than other IPOs over their initial 12 months in 2013 and 2015. However, PE-sponsored IPOs

underperformed non-PE sponsored IPOs over the longer term after the initial 12 months, regardless of when they were issued.

The majority of best performing companies across all sectors of the ASX 200 delivered both strong revenue growth and expanded net profit margin. To understand what could be driving this performance, we undertook some additional analysis that found top quartile companies sustained higher levels of M&A activity, but had lower levels of offshore exposure than the remaining quartiles.

NOTE

1. The analysis in this report used a cut-off date of 30 September 2015 for both start and end dates unless noted otherwise. Economic indicators were based on calendar years and company level financials from public announcements used financial years. When companies had not reported 2015 actual financials by 30 September 2015, we used consensus estimates from Capital IQ.

THE RETURN OF UNCERTAINTY IN 2015

IN 2015, AUSTRALIA WAS confronted with an increasingly uncertain global environment and a slowing economy. After moderate growth for the past few years, the share market experienced softening returns.

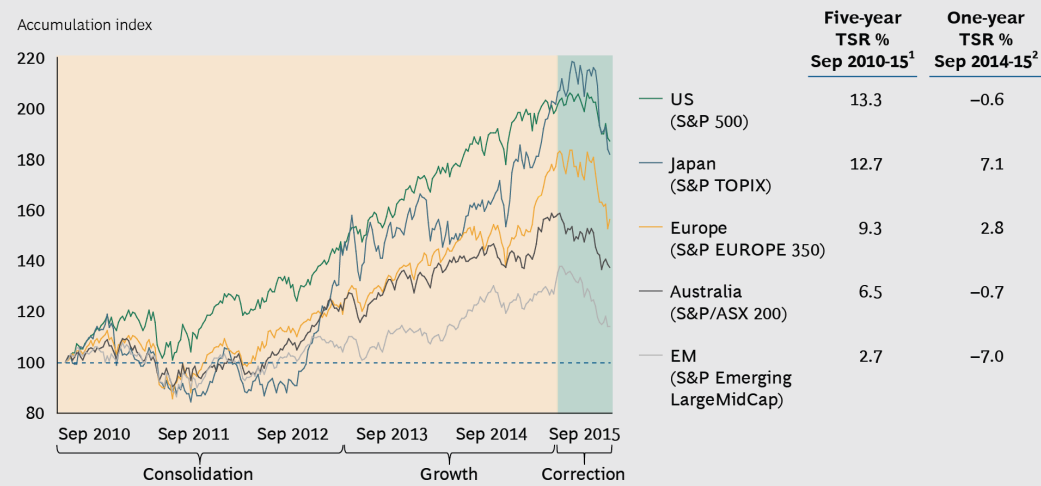
Australia's GDP grew just 2% from the June quarter of 2014 to the June quarter of 2015 – well below average annual GDP growth of 3.5% from 1960 to 2015. The prices of Australia's major export commodities – iron ore,

coal and LNG – were also lower due to subdued offshore demand, especially in China.

The RBA cash rate hit a record low of 2% in May, just before the Government announced a federal budget deficit of \$35b.

On the back of these developments, and consistent with global trends, the outlook for Australia remains uncertain in 2016.

EXHIBIT 1 | The ASX 200 underperformed major developed market indices
TSR performance by major market



Source: S&P Capital IQ, BCG analysis.
¹30 September 2010 to 30 September 2015. ²30 September 2014 to 30 September 2015.

The ASX 200 lagged global peers

The ASX 200 delivered a negative TSR in 2015 of -0.7%. The US S&P 500 delivered a similar result of -0.6%. Emerging markets performed poorly too, with the S&P EM LargeMidCap posting a TSR of -7.0%. Japan's S&P TOPIX led the developed markets with 7.1%, followed by Europe's S&P EUR with 2.8%.

Taking a longer-term view, the ASX 200 delivered a modest annualised TSR of 6.5% over the last five years, although it still lagged the major developed markets (Exhibit 1). By comparison, the US led developed markets with 13.3% TSR, followed by Japan with 12.7% and Europe with 9.3%. Emerging markets underperformed developed markets, posting a five-year TSR of 2.7%.

What drove Australia's relative underperformance?

We used BCG's TSR disaggregation model (see *Understanding the drivers of TSR* on page 9) to take a closer look at the influences on market performance. The model disaggregates TSR into profit growth, PE multiple, and cash flow to help understand where the Australian market underperformed relative to other markets. Our analysis showed that profit growth was the key driver of TSR across all

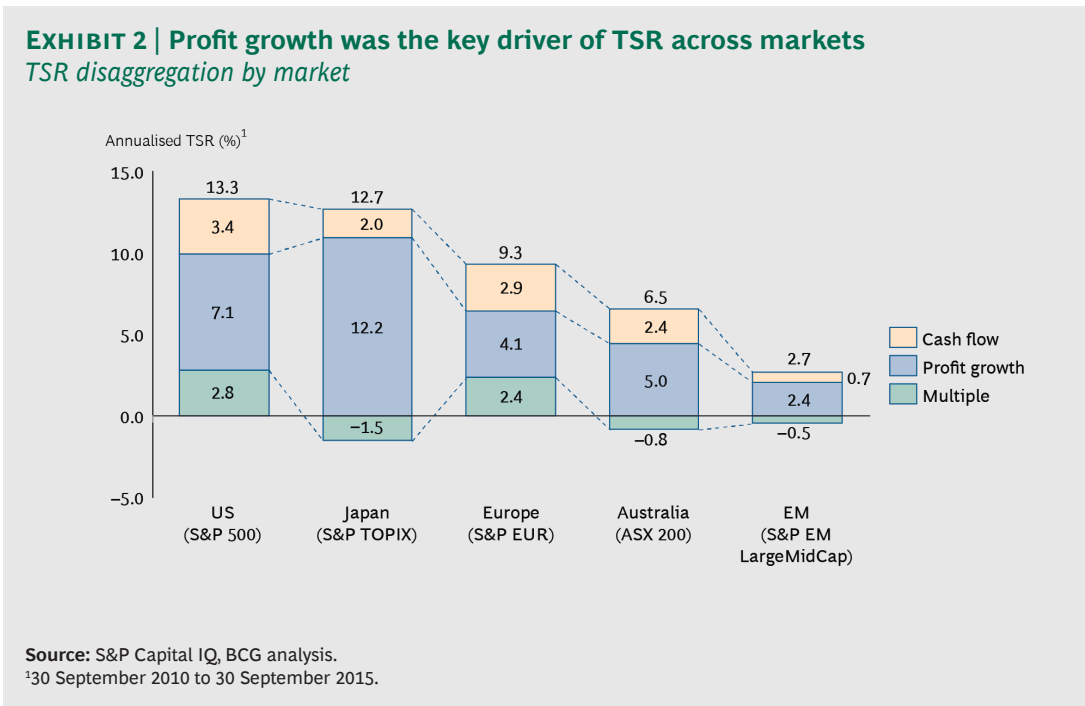
markets over the last five years (Exhibit 2). Japan's profit growth was the highest, taking advantage of falling labour costs and a weakening Yen. The US economic rebound was also evident from increased profit growth. Australia performed better than Europe and the emerging markets on this measure.

However, Australia lagged the US, and even Europe, on multiple change. While the outlook improved in the US and Europe relative to the post-GFC lows of five years ago, Australia was affected by investor concern about the earnings outlook. Most sectors we examined in Australia suffered flat or declining multiples in 2015, except for Healthcare, Consumer discretionary and Telecommunications.

Despite Australia's dividend imputation system, the cash flow contribution of 2.4% was not materially higher than in other developed markets. Higher dividend yields were offset by increased demands on capital, including recent equity raisings by the banks.

Sector-by-sector performance varied significantly

In addition to the cross-market analysis, we also compared the TSR performance of the ASX 200 at sector level. Exhibit 3 shows the



five-year and one-year TSR performance of the five largest sectors¹. Detailed performance for the remaining sectors (Energy, Telecommunication services, Consumer discretionary, Utilities and IT), and the four sub-sectors of the Financials sector (Banks, Real Estate, Insurance and Diversified Financials) can be found in Appendix 2.

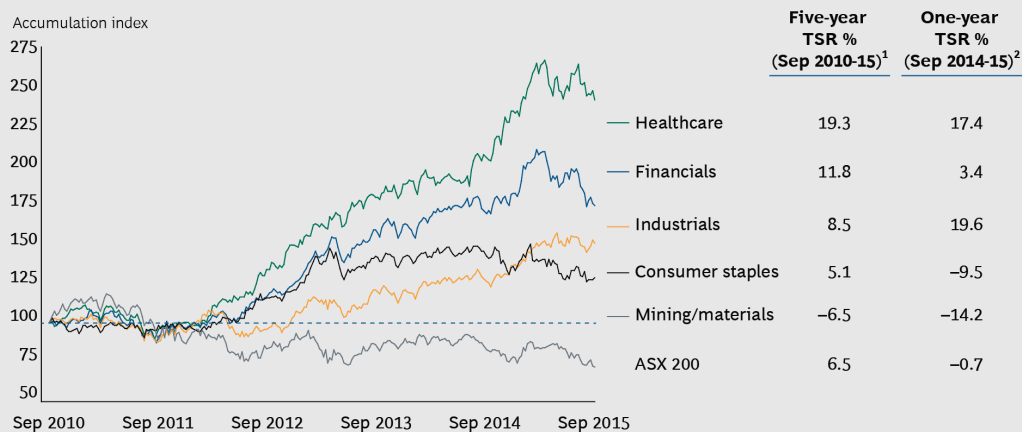
Australia’s overall market performance was influenced heavily by just two sectors – Financials and Mining/materials – which make up well over half of the ASX 200 at 62%. The gap in performance between these two dominant sectors continued to grow in 2015. Financials delivered a reasonable one-year TSR of 3.4%, while Mining/materials underperformed with a TSR of –14.2%. These trends continued over a longer timeframe,

with Financials’ healthy five-year TSR of 11.8% coming in well above Mining/materials at –6.5%.

The Healthcare sector, which represented 6.5% of the ASX 200, continued to lead the market. It maintained strong momentum in 2015 to deliver one-year TSR of 17.4% and five-year TSR of 19.3%. Industrials represented 7.3% of the ASX 200 and performed well with one-year TSR of 19.6% and five-year TSR of 8.5%. In contrast, Consumer staples’ strong recent performance went into reverse; a one-year TSR of –9.5% dropped its five-year TSR to 5.1%.

NOTE
1. Measured by market capitalisation at 30 September 2015.

EXHIBIT 3 | Sector level performance varied significantly
TSR performance of the ASX 200's five largest sectors



Source: S&P Capital IQ, BCG analysis.
¹30 September 2010 to 30 September 2015. ²30 September 2014 to 30 September 2015.

UNDERSTANDING THE DRIVERS OF TSR

Total shareholder return (TSR) measures the combination of share price gains and dividend yield for a company's stock over a given period of time. It is the most comprehensive metric for measuring a company's shareholder value creation performance.

Each year in the Value Creators series, we apply BCG's TSR disaggregation model to a sample of companies¹ from five major indices: the US S&P 500, Japan's S&P TOPIX, Europe's S&P 350, the ASX 200 and the S&P Emerging Markets LargeMidCap.

The model breaks down TSR into:

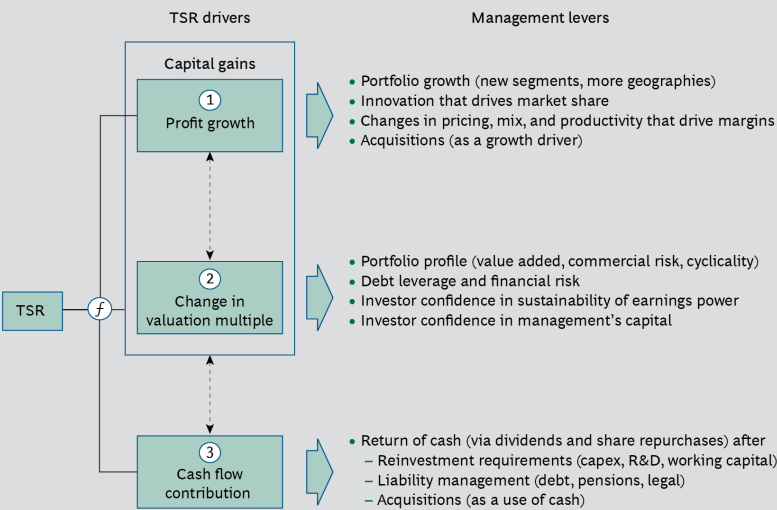
- **Profit growth** = growth in after-tax profit, measured as growth in revenue and change in net profit margin.
- **Multiple change** = change in historical price to earnings ratio.
- **Cash flow** = free cash flow to equity holders, measured as dividend yield and change in shares outstanding.

The model uses the combination of revenue (sales) growth and change in margins as an indicator of a company's improvement in fundamental value. It then uses the change in the company's valuation multiple to determine the impact of investor expectations on TSR. Together, these two factors determine the change in a company's market capitalisation and the capital gain or loss to investors. Finally, the model tracks the distribution of free cash flow to investors and debt holders in the form of dividends, share repurchases, and repayments of debt to determine the contribution of free cash flow payouts to a company's TSR. Management levers for each key element are summarised in the diagram below.

NOTE

1. We excluded companies with non-meaningful multiple changes, volatile results and less than five years of financials.

TSR is the product of multiple factors



Source: BCG analysis.

SUBDUED MARKET EXPECTATIONS

TO PROVIDE SOME INSIGHT into the Australian market's implied value relative to its underlying intrinsic value, we used BCG's proprietary valuation methodology to disaggregate the ASX 200, at market and sector level, into fundamental value and an expectation premium (see Appendix 3).

Fundamental value is based on current financial performance measures and an assumption that growth and profitability rates will return to an industry average over time.

Expectation premium is the difference between market capitalisation and fundamental value. It indicates the aggregate view of investors on whether a company will outperform relative to a set of competitive and macroeconomic factors.

During 2015, market expectations fell in Australia. In September, the ASX's market value sat just below fundamental value, at a ratio of 0.99, the second lowest point in the last decade (Exhibit 4).

EXHIBIT 4 | Market expectations fell in Australia during 2015
Market value/fundamental value ratio over time



Source: S&P Capital IQ, BCG analysis.
Note: Includes all of the ASX 200, excluding Real Estate companies and companies without five-year financials.
¹30 September 2015 market value used to calculate market value/fundamental value ratio for 2015. ²When companies had not reported 2015 actual financials by 30 September 2015, we used consensus estimates from Capital IQ.

The decline in expectation premium in 2015 indicates that market optimism has fallen from the already relatively subdued levels of 2014.

This led us to ask whether the market is truly undervalued. The cost of capital used by practitioners, which we used to calculate fundamental value, has fallen considerably over the last five years. If an increase of 2%-3% was applied, bringing it back to levels seen a few years back, then fundamental value – and most likely market value – would fall significantly. So the market is only "undervalued" if interest rates remain at their current low levels for an extended period. We see this when any hint that the reserve banks intend to raise rates causes downward market jitters.

Expectations by sector

The Banks form a major part of the Financials sector (60%). The fundamental value for the Banks increased over the last

few years, driven by a growing gap between the cash return on equity and the declining cost of equity.

The major banks maintained their pricing power, bad debt charges were benign, and recent requirements to hold increased capital have not fully flowed through to results. However, expectations for Banks declined, falling from -1% in 2014 to -16% in 2015 (Exhibit 5).

In contrast to Banks, the fundamental value of the Mining/materials sector fell due to subdued cash flow return on investments from lower commodity prices. Expectations continued to fall, dropping from -17% in 2014 to -26% in 2015 (Exhibit 6 – see next page).

While positive expectations for the Health-care sector continued, they declined from 28% in 2014 to 15% in 2015 as the sector fell in line with broader market expectations (Exhibit 7 – see next page).

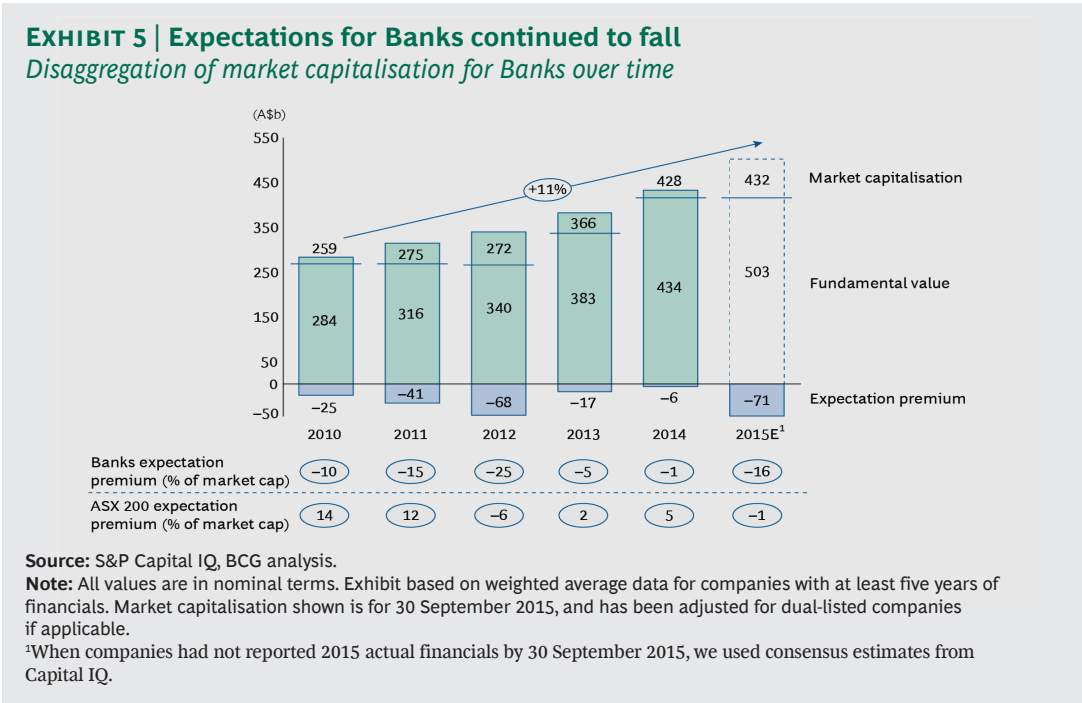
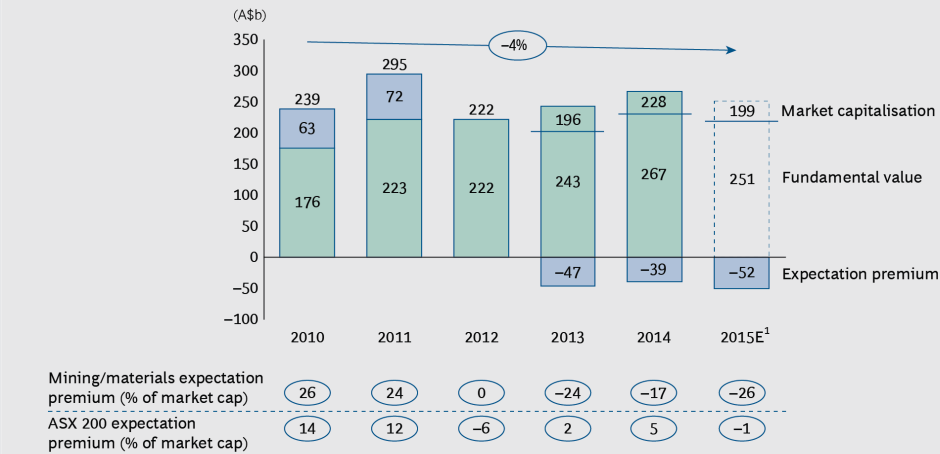
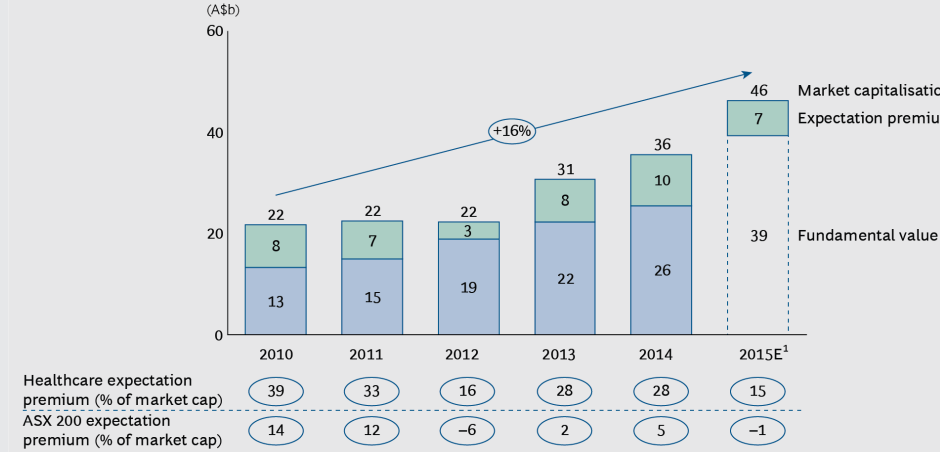


EXHIBIT 6 | Expectations for Mining/materials continued to decline Disaggregation of market capitalisation for Mining/materials over time



Source: S&P Capital IQ, BCG analysis.
Note: All values are in nominal terms. Exhibit based on weighted average data for companies with at least five years of financials. Market capitalisation shown is for 30 September 2015, and has been adjusted for dual-listed companies if applicable.
¹When companies had not reported 2015 actual financials by 30 September 2015, we used consensus estimates from Capital IQ.

EXHIBIT 7 | Positive expectations continued for Healthcare Disaggregation of market capitalisation for Healthcare over time



Source: S&P Capital IQ, BCG analysis.
Note: All values are in nominal terms. Exhibit based on weighted average data for companies with at least five years of financials. Market capitalisation shown is for 30 September 2015, and has been adjusted for dual-listed companies if applicable.
¹When companies had not reported 2015 actual financials by 30 September 2015, we used consensus estimates from Capital IQ.

THE RETURN OF THE IPO

WHILE THE OVERALL RETURN for the Australian market was flat in 2015, a large number of IPO performers debuted strongly. The rise in recent IPO activity stood out as a bright spot in the market that was worth exploring further.

A record number of IPOs and rising PE involvement

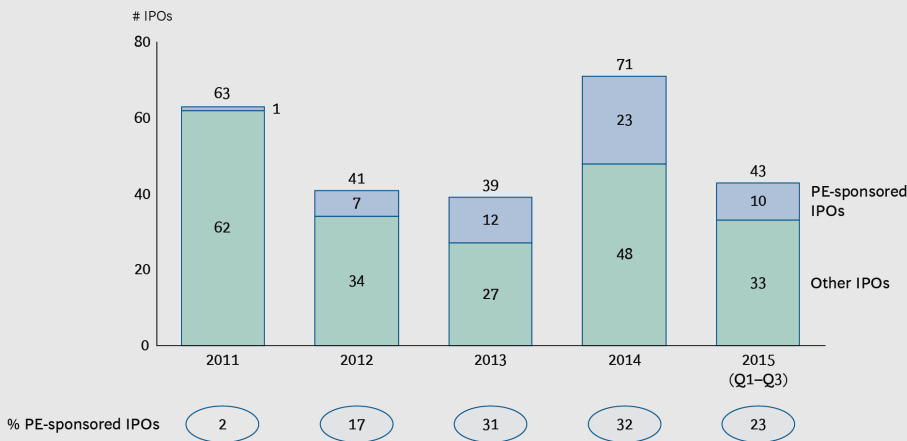
The number of IPOs in the Australian market reached a record high of 71 in 2014, with an-

other 43 IPOs by 30 September 2015. This trend was accompanied by a rise in the proportion of PE-sponsored IPOs, which increased since 2011 and reached a high of 32% in 2014. However, with PE firms holding fewer portfolio companies, PE-sponsored IPOs tapered to 23% by the third quarter of 2015 (Exhibit 8).

Superior post-IPO performance

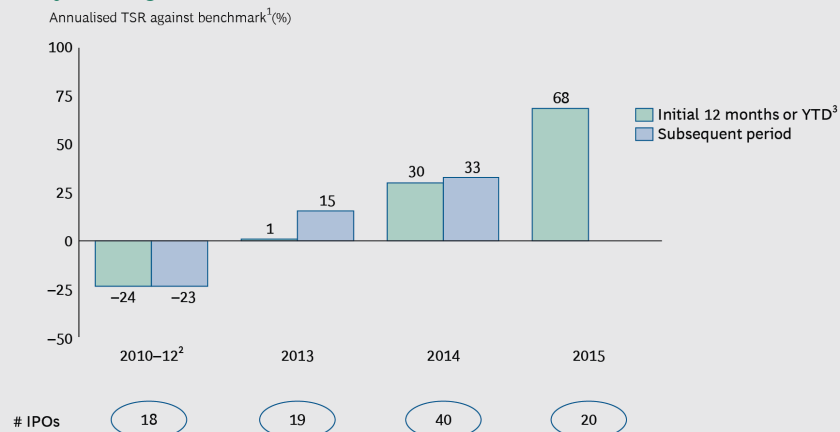
To make the performance comparison more meaningful and adjust for size effect, we took

EXHIBIT 8 | IPO activity increased in 2014
IPO activity and ownership structure IPOs



Source: S&P Capital IQ, BCG analysis.
Note: Only IPOs with close status are shown.

EXHIBIT 9 | IPOs issued in 2013 or later outperformed the benchmark
Performance of IPOs against benchmark

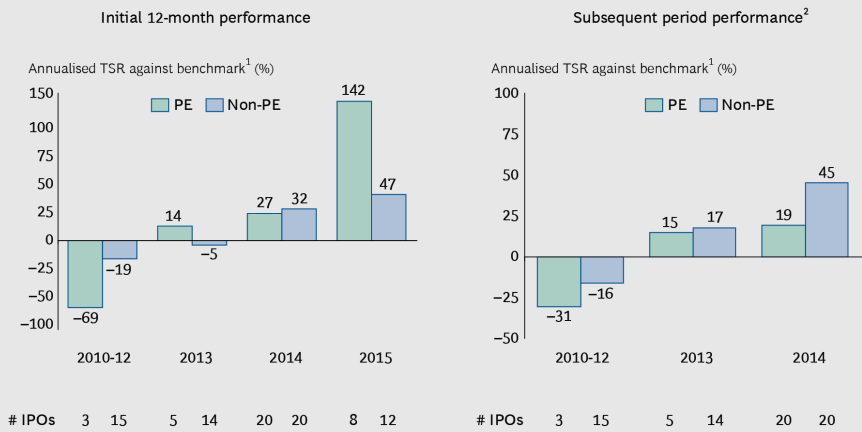


Source: S&P Capital IQ, BCG analysis.
Note: Includes all IPOs from 30 September 2010 to 30 September 2015 with close status and first day market capitalisation greater than A\$100m.
¹Median values of IPOs from each period were used and compared against corresponding total accumulated return of ASX 200 as benchmark. ²Grouped due to low sample size for each individual year. ³For IPOs issued for less than 12 months, YTD performance was calculated from the initial filing date to 30 September 2015 and then annualised for comparison purposes.

IPOs from 30 September 2010 to 30 September 2015 with first-day market capitalisation greater than A\$100m. We compared their performance against a benchmark of the accumulated return of the ASX 200 over the corresponding period for each IPO. Then we categorised IPOs by vintage year¹ and calculated the median annualised TSR performance against the benchmark for each year.

We compared the performance of each IPO over its initial 12 months and a subsequent period from the end of their initial 12 months to 30 September 2015 (Exhibit 9). We found that IPOs issued between 2010 and 2012 underperformed the benchmark in their first 12 months and the subsequent period, while IPOs issued in 2013 or later outperformed the benchmark.

EXHIBIT 10 | PE-sponsored IPOs outperformed initially, but underperformed in following years
Performance of IPOs by ownership structure and timeframe



Source: S&P Capital IQ, BCG analysis.
Note: Includes all IPOs from 30 September 2010 to 30 September 2015 with close status and first day market capitalisation greater than A\$100m.
¹Median values of IPOs from each period were used and compared against the corresponding total accumulated return of the ASX 200 as benchmark. ²Post initial 12 months of IPO.

PE-sponsored IPOs

Given the rising proportion of PE-sponsored IPOs, we also examined IPO performance by ownership structure (PE-sponsored IPOs compared with non-PE sponsored IPOs).

Both PE-sponsored IPOs and non-PE sponsored IPOs issued in more recent years performed better than the benchmark (Exhibit 10). For their initial 12 months, PE-sponsored IPOs underperformed non-PE sponsored IPOs between 2010 and 2012,

before the pattern reversed in 2013 and 2015 when PE-sponsored IPOs began to deliver significantly better results. However, in 2014 PE-sponsored IPOs underperformed non-PE sponsored IPOs slightly by 5%.

Over the subsequent period PE-sponsored IPOs underperformed non-PE sponsored IPOs – regardless of when they were issued.

NOTE

1. Defined as the year of the IPO's initial filing date.

WHO ARE AUSTRALIA'S STRONGEST VALUE CREATORS?

TO TAKE A CLOSER look at what drives value creation in Australian public companies, we studied a sub-group of the ASX 200 made up of companies listed for at least five years at 30 September 2015 (163 of the ASX 200).

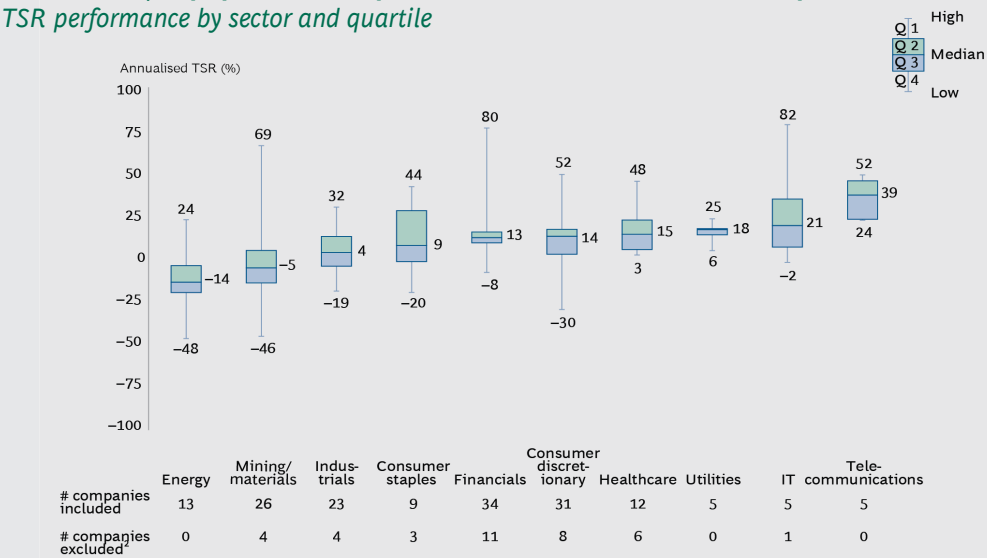
Top quartile companies in most sectors delivered positive TSR for the past five years, even when confronted with macro-level headwinds. However, the performance of individual companies within each sector diverged

widely (Exhibit 11), showing that performance at the company level matters when it comes to TSR – regardless of economy or sector-wide influences.

To take a closer look at the characteristics of the leading value creators, we ranked the top quartile performers across all sectors – a total of 41 companies (Exhibit 12).

Companies of all sizes featured in the top quartile, and each sector was represented at

EXHIBIT 11 | Top quartile companies in most sectors delivered positive TSR
TSR performance by sector and quartile



Source: S&P Capital IQ, BCG analysis.
¹From 30 September 2010 to 30 September 2015. ²Companies without five years of financials have been excluded from this analysis.

EXHIBIT 12 | The ASX 200's top quartile performers

| Rank | Company name | Industry | Market capitalisation | Five-year TSR 2010–15 (%) |
|------|--|----------------------------|-----------------------|---------------------------|
| 1 | Altium Limited | Information technology | 600 | 82.0 |
| 2 | Magellan Financial Group | Financials | 3,051 | 80.1 |
| 3 | Northern Star Resources Limited | Mining/materials | 1,602 | 69.3 |
| 4 | Domino's Pizza Enterprises Limited | Consumer discretionary | 3,501 | 51.8 |
| 5 | TPG Telecom Limited | Telecommunication services | 8,873 | 51.5 |
| 6 | Vocus Communications Limited | Telecommunication services | 1,337 | 47.9 |
| 7 | Sirtex Medical Limited | Healthcare | 1,871 | 47.7 |
| 8 | Blackmores Limited | Consumer staples | 2,534 | 44.4 |
| 9 | G8 Education Limited | Consumer discretionary | 1,074 | 40.3 |
| 10 | M2 Group Limited | Telecommunication services | 1,740 | 39.3 |
| 11 | BT Investment Management Limited | Financials | 2,455 | 38.8 |
| 12 | Village Roadshow Limited | Consumer discretionary | 1,115 | 37.9 |
| 13 | TechnologyOne Limited | Information technology | 1,193 | 36.8 |
| 14 | Select Harvests Limited | Consumer staples | 801 | 34.2 |
| 15 | Ramsay Health Care Limited | Healthcare | 11,726 | 33.5 |
| 16 | REA Group Limited | Consumer discretionary | 5,838 | 32.1 |
| 17 | Credit Corp. Group Limited | Industrials | 473 | 32.0 |
| 18 | Ardent Leisure Group | Consumer discretionary | 1,206 | 30.7 |
| 19 | Tassal Group Limited | Consumer staples | 632 | 29.8 |
| 20 | Sydney Airport Limited | Industrials | 13,288 | 29.1 |
| 21 | APA Group | Utilities | 9,527 | 24.8 |
| 22 | Telstra Corporation Limited | Telecommunication services | 68,487 | 24.5 |
| 23 | Fisher & Paykel Healthcare Corporation Limited | Healthcare | 3,628 | 24.5 |
| 24 | Caltex Australia Limited | Energy | 8,446 | 24.3 |
| 25 | Spark New Zealand Limited | Telecommunication services | 4,965 | 24.0 |
| 26 | Sigma Pharmaceuticals Limited | Healthcare | 806 | 23.8 |
| 27 | Breville Group Limited | Consumer discretionary | 768 | 23.2 |
| 28 | Macquarie Atlas Roads Group | Industrials | 2,013 | 22.9 |
| 29 | James Hardie Industries PLC | Mining/materials | 7,586 | 22.8 |
| 30 | Macquarie Group Limited | Financials | 23,495 | 22.5 |
| 31 | Aristocrat Leisure Limited | Consumer discretionary | 5,486 | 22.5 |
| 32 | Henderson Group PLC | Financials | 5,984 | 21.1 |
| 33 | Transurban Group | Industrials | 19,104 | 20.9 |
| 34 | Qube Holdings Limited | Industrials | 2,078 | 20.8 |
| 35 | carsales.com Limited | Information technology | 2,348 | 20.8 |
| 36 | Charter Hall Group | Financials | 1,780 | 20.7 |
| 37 | Growthpoint Properties Australia | Financials | 1,775 | 20.1 |
| 38 | BWP Trust | Financials | 1,985 | 19.8 |
| 39 | Mayne Pharma Group Limited | Healthcare | 823 | 19.2 |
| 40 | DuluxGroup Limited | Mining/materials | 2,043 | 19.2 |
| 41 | Nufarm Limited | Mining/materials | 2,158 | 18.9 |

least once (Exhibit 13). The Consumer discretionary and Financials sectors contributed the highest number of top quartile performers, while Telecommunications and IT contributed the highest proportion.

What drives top-quartile performance?

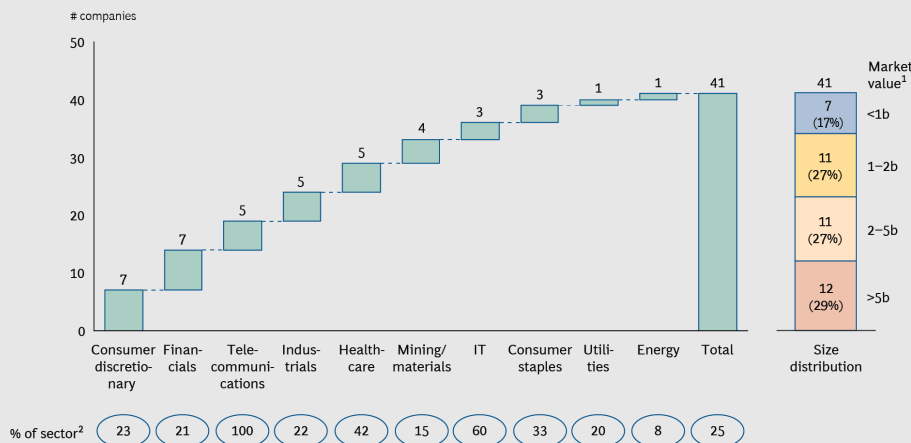
From the earlier disaggregation analysis, we

found that profit growth was the key driver of TSR across markets. To take it one step further, we broke down profit growth into revenue growth and change in net profit margin to assess their impact on the TSR performance of top quartile performers.

Of the top quartile performers, 75% delivered positive revenue growth and expanded their net profit margin (Exhibit 14). Of the remain-

EXHIBIT 13 | Company sector and size didn't appear to drive performance

Top quartile performers by sector and size

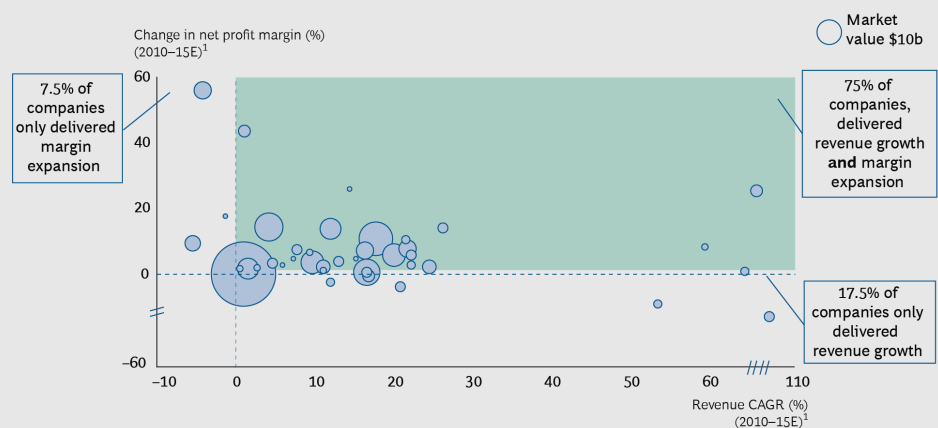


Source: S&P Capital IQ, BCG analysis.

¹As at 30 September 2015. ²As % of the total companies included in the five year TSR analysis; Companies with only one year of Q1/Q2 performance over the past five years have been removed.

EXHIBIT 14 | Most top quartile performers delivered revenue growth and raised income margins

Change in net profit margin and revenue growth for top quartile performers



Source: S&P Capital IQ. BCG analysis.

Note: One outlier with excessively large ratios was excluded.

¹When companies had not reported 2015 actual financials by 30 September 2015, we used consensus estimates from Capital IQ.

ing top quartile, 17.5% grew revenue but experienced a decline in net profit margin. The remaining 7.5% expanded net profit margin while their revenue shrank. No company in the top quartile delivered a negative net profit margin change and declining revenue. These results show that strong performance is driven by strong fundamentals with revenue growth and/or margin expansion as expected.

More than 90% of first quartile companies increased their revenue over the past five years. These results are consistent with our 2014 *Australian Value Creators Report* that found revenue growth is the single most important and sustainable contributor to TSR over the long term.

HOW DO THEY CREATE VALUE?

TO TAKE A CLOSER look at what drives the performance of Australia's value creators, we examined whether top performers were more likely to adopt two conventional value creation strategies of mergers & acquisitions (M&A) and offshore expansion.

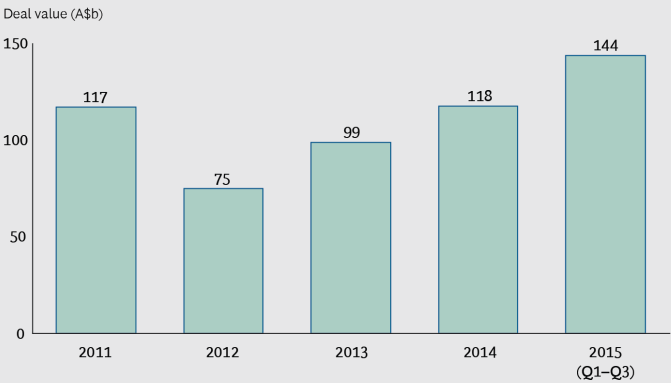
Creating value through M&A

Total deal value has been increasing steadily since 2012, and had already reached \$144b by the third quarter of 2015 (Exhibit 15).

When we compared the M&A activity of the top quartile with the remaining quartiles, we found that top quartile companies engaged in higher levels of M&A activity on average (18%) than the rest (9%)¹ (Exhibit 16).

After observing this, we wanted to understand if there was a correlation between the levels of M&A activity and the TSR performance of companies within the top quartile. However, our analysis showed no obvious pattern.

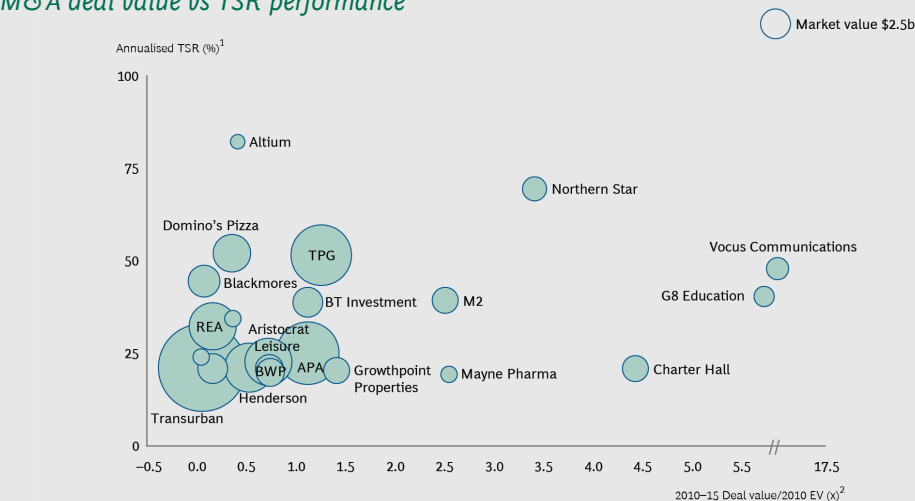
EXHIBIT 15 | Total deal value has steadily increased since 2012



Source: S&P Capital IQ. BCG analysis.

Note: Includes all announced, closed or effective transactions with targets based in Australia.

EXHIBIT 16 | Top quartile performers engaged in more M&A activity
M&A deal value vs TSR performance



Source: S&P Capital IQ, BCG analysis.
Note: Only companies with 2010-15 Deal value/2010 EV greater than 5% are shown.
¹From 30 September 2010 to 30 September 2015. ²Refers to total deal value from 30 September 2010 to 30 September 2015, including considerations paid to shareholders, debt holders and other stakeholders. Enterprise value measured as of 30 September 2010.

Creating value through offshore expansion

Offshore expansion, particularly into regions with high growth potential, is another potential strategy Australian companies use to drive growth when local opportunities are difficult to find. To gauge Australian companies' offshore expansion activity in recent years, we applied offshore revenue³ as a proxy. However, as only around 40% of companies in our sample publicly disclosed their offshore revenue over the past five years, the results need to be interpreted with caution.

Setting aside the data limitations, companies included in the sample increased their offshore revenue by 4% on average since 2010, indicating that Australian companies increased their offshore exposure slightly.

Companies in the top quartile also appeared to have less offshore exposure in 2015 (21%) compared to the remaining quartiles (28%), suggesting that strong performers focused on home markets more than their peers.

NOTE
1. Includes all announced, closed or effective transactions with targets based in Australia.
2. Measured by total accumulated deal value from 30 September 2010 to 30 September 2015 over the starting enterprise value at 30 September 2010.
3. Only 65 of the 163 companies in the sample reported offshore revenue. The remainder did not report offshore revenue separately or 2015 results were not released by 30 September 2015.

LESSONS FROM SUCCESSFUL SERIAL ACQUIRERS¹

To find out why some companies are much more successful than others in their M&A pursuits, BCG interviewed senior managers, investors, and sell-side analysts of successful serial acquirers. As one might expect, each company's approach contains elements unique to the company or industry; similarly, all share a panoply of standard M&A best practices, such as in-depth due diligence, a strong network of external advisors, and detailed integration plans.

But the single factor that most often distinguishes these successful serial acquirers from the rest is their willingness to invest large amounts of leadership time, money, and organizational focus in support of their M&A strategy – in advance of any particular deal. For these serial acquirers, each completed transaction is often the result of years, or even decades, of consistent, patient, and methodical preparation.

More specifically, successful serial acquirers invest disproportionately in three key areas:

- ***Building and refining a compelling investment thesis.*** These acquirers craft a proprietary view of how they create value and use that view to guide their M&A activity.
- ***Investing in an enduring M&A network and culture.*** Senior leadership is deeply engaged in the M&A process, and managers at all levels of the organization are expected to source and cultivate relationships with potential targets.
- ***Defining distinctive principles for the M&A process.*** The most successful acquirers articulate a core set of carefully designed operating principles. These principles define how the M&A process and people will be managed for discipline without adding bureaucracy.

NOTE

1. Excerpt from *Lessons from Serial Acquirers* by Gerry Hansell, Decker Walker and Jens Kengelbach, BCG 2014, bcgperspectives.com

THE BEST VALUE CREATION STRATEGY

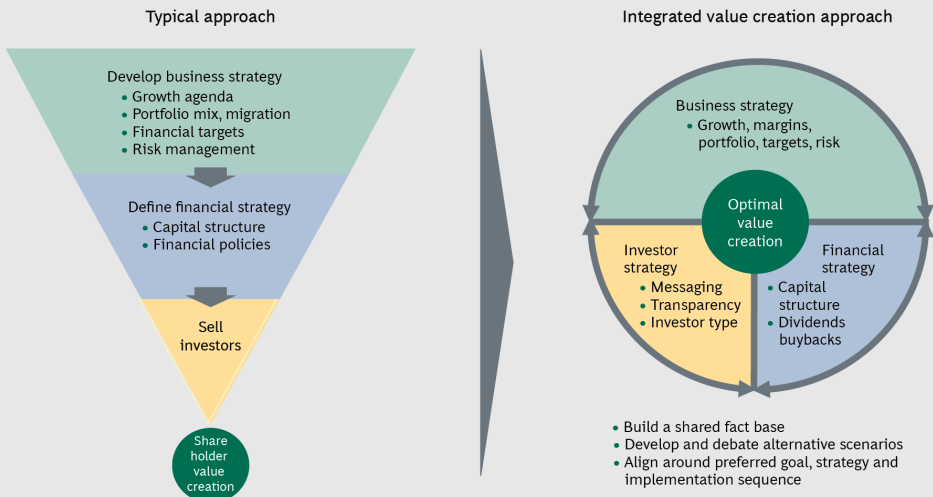
DESPITE THE INCREASING ECONOMIC headwinds and uncertain outlook, Australia's best value creators – regardless of their sector or size – consistently delivered superior returns for their shareholders. Our 2015 Global Value Creators Report also demonstrated this and profiled companies that delivered strong TSR in spite of strong economic or macro headwinds. While insights from these strong performers are valuable, executives need to consider their company's unique position and form a bespoke value

creation strategy that will allow them to forge a competitive advantage.

A robust value creation strategy takes a holistic approach that addresses three important areas: business strategy; financial strategy; and investor strategy.

A good **business strategy** starts with a fact-based holistic view of a company's TSR based on existing plans. It then reviews the overall portfolio to allocate capital and other resour-

EXHIBIT 17 | BCG'S INTEGRATED APPROACH TO VALUE CREATION
Typical top-down approach vs Integrated approach



Integrated approach will foster stronger alignment between business, investor and financial strategies

Source: BCG Analysis.

es to support each business unit and achieve the corporate TSR target. Strong portfolio management should create more value than individual business units would create on their own.

A sound **financial strategy** delivers a clear plan for the best use of a company's equity, debt, and free cash flow. Important decisions should be made coherently, rather than discretely, to develop the right financial strategy and link it explicitly to a company's value creation strategy.

A successful **investor strategy** needs to reflect the collective priorities and expectations

of shareholders. A company should think of its investors in the same way it thinks of its customers – segment them into different categories based on investment style and priorities, and identify the right investor type for the company. This approach puts a company in the best position to win investor support for its value creation strategy.

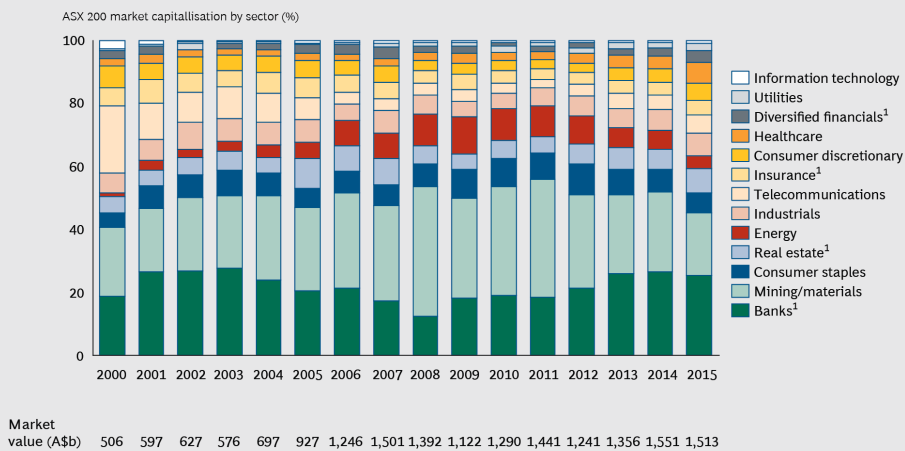
By crafting a comprehensive value creation strategy that aligns business strategy, financial strategy and investor strategy, leaders can build a value-creating company that is simultaneously a great business and a great stock.

APPENDIX 1: ASX 200 MARKET CAPITALISATION BY INDUSTRY SECTOR

Exhibit 18 shows the distribution of ASX 200 market capitalisation by industry over time. Since 2014, the Mining/materials and Energy shares of market capitalisation declined significantly, while Banks declined marginally.

Healthcare, Industrials, Real Estate and Telecommunication services shares have increased.

EXHIBIT 18 | ASX 200 market capitalisation by sector



Source: S&P Capital IQ, BCG analysis.
Note: Market capitalisation figures reflect the full value of the ASX 200 companies, including dual-listed companies. Industries are designated by GICS Sector, with the Financial sector broken down further into industry groups. Market capitalisation shown as of 30 June from 2000 to 2014, and 30 September for 2015.
¹A sub-sector of the Financials sector.

APPENDIX 2: TSR PERFORMANCE BY INDUSTRY SECTOR

Exhibit 19 shows the market value, five-year and three-year TSR performance, current and historical forward PE ratios and market value to book value ratios for sectors across the ASX 200.

EXHIBIT 19 | TSR performance by industry sector

| | MV (\$b) (30/9/15) | Five-year ¹ TSR Sep 2010-15 (%) | Three-year ² TSR Sep 2012-15 (%) | PE ratio (30/9/12) | PE ratio (30/9/15) | MV/BV (30/9/15) |
|-------------------------------------|-----------------------|---|--|-----------------------|-----------------------|--------------------|
| Banks ³ | 381 | 11.4 | 12.6 | 11.4x | 12.1x | 1.8 |
| Mining materials | 304 | -6.5 | -5.1 | 12.2x | 18.2x | 1.7 |
| Consumer staples | 96 | 5.1 | 3.8 | 15.4x | 16.4x | 2.1 |
| Industrials | 110 | 8.5 | 16.2 | 13.5x | 19.1x | 2.4 |
| Real estate ³ | 117 | 13.7 | 16.5 | 11.7x | 15.7x | 1.3 |
| Energy | 59 | -8.7 | -9.9 | 17.5x | 16.1x | 1.1 |
| Telecommunication services | 85 | 25.3 | 20.6 | 13.2x | 16.2x | 4.9 |
| Consumer discretionary | 87 | 7.0 | 16.4 | 12.5x | 16.0x | 1.8 |
| Healthcare | 98 | 19.3 | 21.7 | 19.6x | 21.2x | 5.0 |
| Insurance ³ | 69 | 7.2 | 11.0 | 11.2x | 13.3x | 1.7 |
| Diversified financials ³ | 57 | 17.7 | 35.4 | 12.4x | 14.4x | 2.3 |
| Utilities | 36 | 13.9 | 15.1 | 15.4x | 21.5x | 1.6 |
| IT | 14 | 7.5 | 11.2 | 17.0x | 16.9x | 6.0 |
| ASX 200 total | 1,513 | 6.5 | 9.4 | 12.8x | 15.1x | 1.9 |

Source: S&P Capital IQ, BCG analysis.
Note: Industries classified by GICS sector groups, where the Financials sector has been further broken into its industry group components.
¹From 30 September 2010 to 30 September 2015. ²From 30 September 2012 to 30 September 2015. ³A sub-sector of the Financials sector.

APPENDIX 3: MARKET EXPECTATION ANALYSIS METHODOLOGY

Our sample includes companies from the ASX 200 listed for at least five years as at 30 September 2015.

What sample was used in the analysis?

In addition, for the purposes of fundamental analysis and TSR disaggregation, we have again excluded real estate and infrastructure companies, consistent with last year's edition. Companies with incomplete financials were also excluded.

How are financial services companies dealt with in the analysis?

Due to the unique accounting framework used for financial services companies (that is, from the Banks and Insurers sectors), we treat financial services companies slightly differently to non-financial services companies. For financial services companies we make the following adjustments:

- Common Book Equity (that is, Book Equity excluding Preference Equity and Other Outside Equity Interests) and Cash Flow Return on Equity are used instead of Gross Investment and CFROI.
- EBITDA is not a useful measure for financial services companies. Therefore, in our outside-in TSR disaggregation frame-

work, revenue growth is income growth, margin change is the change in the net profit after tax (NPAT) to total income ratio and the change in the multiple is the change in the Equity Value to NPAT multiple (that is, the P/E multiple). Furthermore, Enterprise Value equals Equity Value, and therefore there is no Net Debt Change factor for financial services companies.

How do we calculate fundamental value?

BCG calculates the fundamental value of a company based on its current performance and a sustainable growth rate. The calculation is a capitalisation of the estimated future economic profits, similar to a Discounted Cash Flow (DCF) analysis, except that BCG's method does not rely on a terminal value.

Instead, BCG uses a 'double fade' methodology that is founded on the notion that, over time, the profitability and growth rates of companies fade towards long-run industry averages. The concept of fade is empirically supported and is consistent with the workings of an efficient competitive market in which outperformance is competed away by rivals and underperformance is forced up by capital market pressures.

ABOUT THE AUTHORS

Nicholas Glenning

is a Senior Partner and Managing Director in BCG's Melbourne office and leads the firm's Corporate Development Practice Area in Asia Pacific.

Damien Wodak

is a Partner in the Melbourne office and leads the firm's Corporate Development Practice Area in Australia and New Zealand.

Yan Zhu

is an Associate in the Melbourne office and a core member of BCG's Corporate Development Practice Area.

About BCG's Corporate

Development Practice Area

BCG's Corporate Development Practice Area combines BCG's traditional expertise in corporate strategy with extensive experience in mergers and acquisitions and post-merger integration, a proprietary value management methodology and new analytic approaches for understanding and responding to the ways that capital markets value a company. We work closely with BCG's industry experts to help clients design and execute their corporate strategies, re-engineer their portfolios, screen potential acquisition targets and integrate them after the deal is signed. We also make sure that corporate processes are aligned with the goals of a company's value creation strategy.

NOTE TO THE READER

Acknowledgments

This report is produced by BCG's Corporate Development Practice. The authors would like to acknowledge the contributions of Eliza Spring, Sebastien Vuillod, Philippe Dehillotte, Rebecca Diepenheim, Hady Farag, Alan Wong, Lee Sun, Caitlin Anstee, Alison Urquhart, Ty van der Linden and Stephanie Fielding to the writing and production of this report.

For Further Information

For further information about the report or about BCG please contact:

Nicholas Glenning

*Senior Partner and Managing Director
Corporate Development Leader,
Asia-Pacific Region
BCG Melbourne
+61 3 9656 2100
glenning.nicholas@bcg.com*

Damien Wodak

*Partner and Managing Director
Corporate Development Leader,
Australia and New Zealand
BCG Melbourne
+61 3 9656 2100
wodak.damien@bcg.com*

FOR FURTHER READING

Some of our most popular reports on corporate development and M&A include:

The 2015 M&A Report

A report by the Boston Consulting Group, October 2015

The 2015 Global Value Creators Report: Value Creation for the Rest of Us

A report by the Boston Consulting Group, July 2015

M&A in China: Getting Deals Done, Making Them Work

BCG Perspectives, January 2015

When the Growing Gets Tough, the Tough Get Growing

The Boston Consulting Group, October 2014

Don't Miss the Exit: Creating shareholder value through divestitures

A report by the Boston Consulting Group, September 2014

Turnaround: Transforming Value Creation: The 2014 Value Creators Report

A report by the Boston Consulting Group, September 2014

Unlocking Acquisitive Growth: Lessons from successful serial acquirers

BCG Perspectives, September 2014

The Challenge of Growth: The 2014 Australian Value Creators Report

A report by the Boston Consulting Group, October 2014

To read these reports in full please visit bcgperspectives.com.

© The Boston Consulting Group, Inc. 2016. All rights reserved.

For information or permission to reprint, please contact BCG at:

Email: ANZMarketingMailbox@bcg.com

Phone: +1 61 2 9323 5600

Mail: BCG Marketing
The Boston Consulting Group Pty Limited
Level 41, 161 Castlereagh St
Sydney NSW 2000
Australia

To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcgperspectives.com.

Follow [bcg.perspectives](https://www.facebook.com/bcg.perspectives) on Facebook and Twitter.



BCG

THE BOSTON CONSULTING GROUP

Abu Dhabi
Amsterdam
Athens
Atlanta
Auckland
Bangkok
Barcelona
Beijing
Berlin
Bogotá
Boston
Brussels
Budapest
Buenos Aires
Calgary
Canberra
Casablanca

Chennai
Chicago
Cologne
Copenhagen
Dallas
Detroit
Dubai
Düsseldorf
Frankfurt
Geneva
Hamburg
Helsinki
Ho Chi Minh City
Hong Kong
Houston
Istanbul
Jakarta

Johannesburg
Kiev
Kuala Lumpur
Lisbon
London
Los Angeles
Luanda
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis
Monterrey
Montréal
Moscow
Mumbai

Munich
Nagoya
New Delhi
New Jersey
New York
Oslo
Paris
Perth
Philadelphia
Prague
Rio de Janeiro
Riyadh
Rome
San Francisco
Santiago
São Paulo
Seattle

Seoul
Shanghai
Singapore
Stockholm
Stuttgart
Sydney
Taipei
Tel Aviv
Tokyo
Toronto
Vienna
Warsaw
Washington
Zurich