

M&A Quarterly Update: 2023 First Quarter



MERGERS & ACQUISITIONS
CAPITAL RAISING
COLADV.COM

Welcome to the quarterly M&A update for the first quarter of 2023. Our 2023 First Quarter Report analyzes data from the fourth quarter of 2022.

Colonnade Advisors relies heavily on the research of Pitchbook, and we recommend going to [this link](#) to download the latest Global M&A report.

In our commentary on the 26-page Pitchbook report, Colonnade provides additional insights based on our expertise and focus on the middle market and specific industries.

M&A Quarterly Activity (North America)

Although North American M&A activity increased slightly in the fourth quarter of 2022, both estimated deal count and deal value figures remained significantly below the fourth quarter of 2021. Rising interest rates, high inflation, and general economic uncertainty continue to challenge the M&A market.

Using estimates, Q4/2022 realized 4,703 closed deals for an aggregate transaction value of just over \$498 billion.

The fourth quarter of 2022 predicts a 38% decrease in aggregate transaction value over Q4/2021 and a 17% decrease in deal count in the same time period.

Both estimated aggregate transaction value and deal volume increased slightly on a quarter-over-quarter basis.

Quarterly North American M&A Activity (\$ in billions)

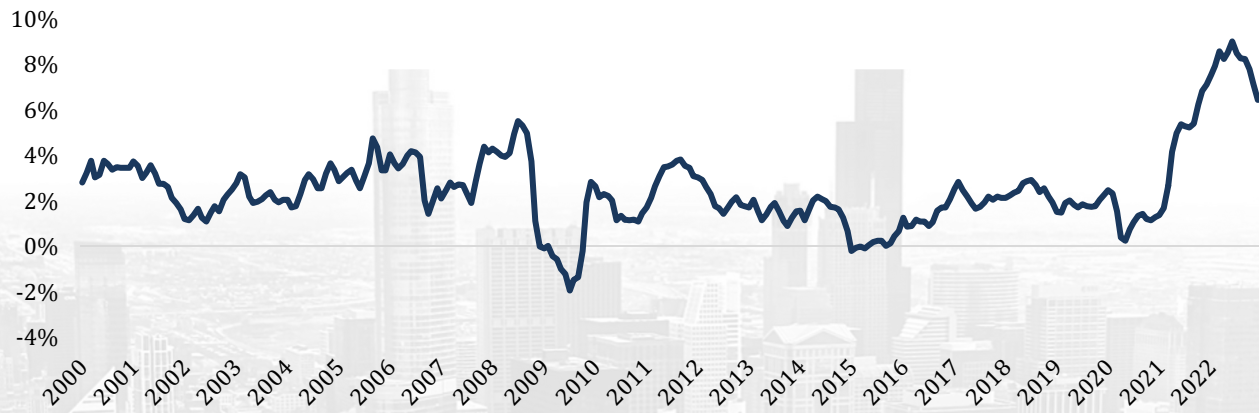


Source: Pitchbook | Geography: North America | *as of Dec. 31, 2022

A year-end spike in M&A activity is typical, and Q4/2022 deal value and deal count did experience marginal increases over Q3 when including estimates. However, as interest rate hikes continue to drive up the cost of financing acquisitions and volatile stock market valuations combined with fears over a potential recession persist, this year’s fourth-quarter increase was smaller than in previous years.

Although inflation has slowed slightly in recent months, the U.S. continues to face some of the highest inflation rates it has seen in the past 40 years. The following chart depicts the latest inflation statistics:

Rate of Inflation - Consumer Price Index



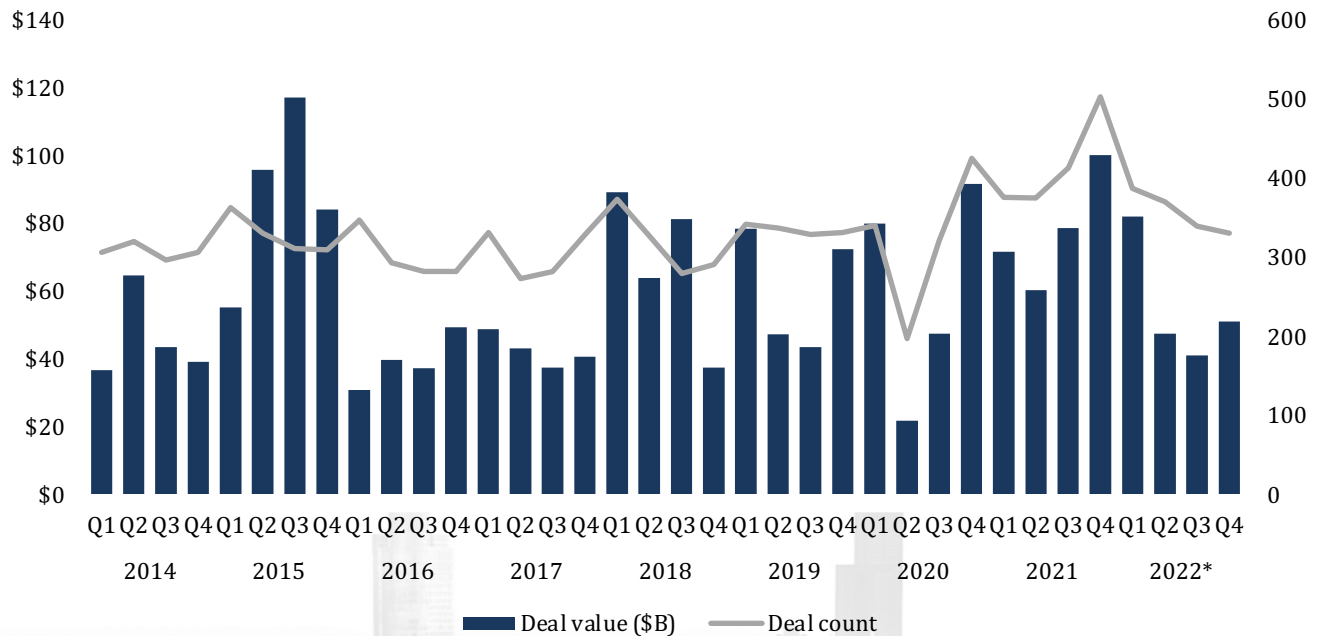
Source: FRED as of Dec. 31, 2022

Financial Services M&A Quarterly Activity (North America)

Aggregate North American M&A deal value in the financial services sector increased slightly in the fourth quarter of 2022, while deal count declined. Within financial services, insurance companies represented one of the largest sub-sectors of transactions in the fourth quarter, driven by resilience in the insurance brokerage market.

Financial services firms are becoming increasingly selective and employing more rigorous diligence standards in an effort to unlock value amid renewed regulatory scrutiny and an uncertain macroeconomic environment.

Quarterly Financial Services M&A Activity (\$ in billions)

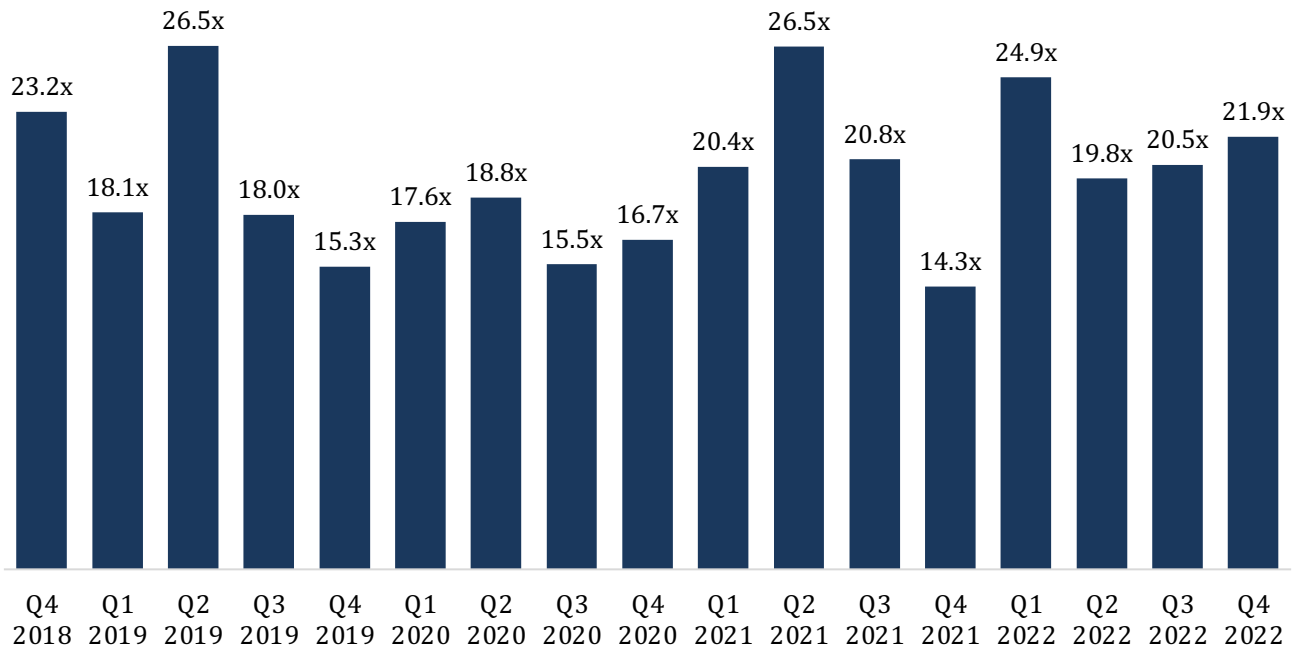


Source: Pitchbook | Geography: North America | *as of Dec. 31, 2022

Deal Multiples (U.S.)

Transaction multiples in the United States rose again during Q4/2022, the second consecutive quarter with an increase.

The average Enterprise Value / EBITDA was 21.9x, higher than the fourth quarters of both 2020 and 2021, but still below this year's high in Q1. Multiples in this range indicate we remain in a seller's market.

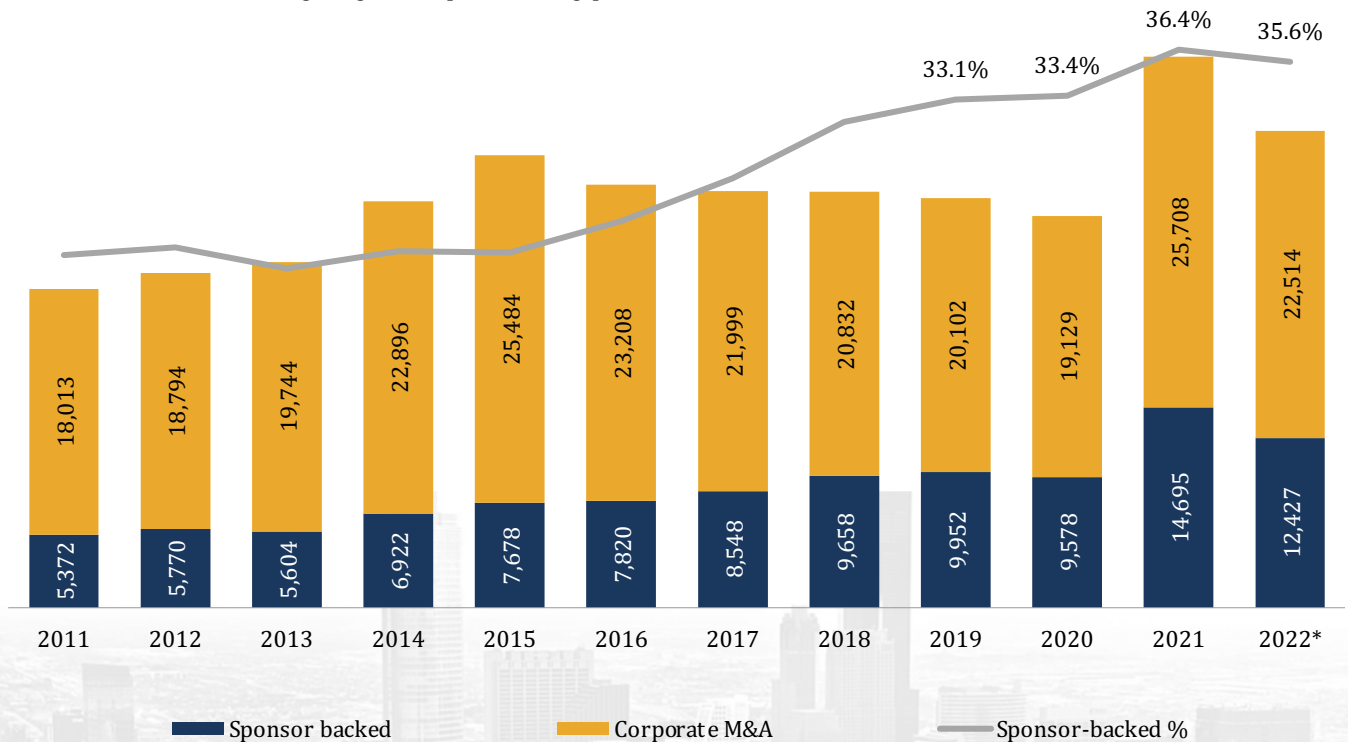


Sponsor vs. Corporate M&A (Global)

Faced with a higher cost of capital as a result of increasing interest rates, sponsor-backed deals declined 21.5% in Q4/2022. Private equity accounted for 34.3% of all transactions globally in the fourth quarter of 2022, and 35.6% for the full year. Despite slowing in recent months, the share of private equity deals remains significantly above the 25.4% of sponsor-backed deals in Q4/2012.

Although private equity fundraising declined in Q4/2022, a significant amount of capital remains to be deployed. Dry powder is estimated to be nearly \$2 trillion as of Q4/2022, up almost 21.0% year-over-year¹. Additionally, private credit funds continue to gain popularity as private equity firms look beyond traditional banks for cheaper financing.

M&A Deal Activity by Acquirer Type



Source: Pitchbook | Geography: Global | *as of Dec. 31, 2022

¹Global private equity dry powder as of Dec. 15, 2022, per S&P Global Market Intelligence

Conclusion

M&A activity in the fourth quarter of 2022 increased slightly but remained down from its record levels in recent quarters. Rising interest rates, high inflation, and volatile equity valuations will continue to pose headwinds for the M&A landscape heading into 2023. Alternative funding sources are gaining popularity as the cost of capital continues rising, and diligence standards are becoming more stringent as acquirers search for maximum value.

Despite the various economic headwinds, there was enough liquidity among strategics, private equity firms, and institutional investors to drive up transaction multiples slightly from the last quarter. With significant dry powder waiting to be deployed and strategic acquirers looking to grow as the economy rebounds, 2023 could present a compelling opportunity for well-run middle-market firms to pursue an M&A strategy.

If you would like to discuss M&A market conditions with Colonnade, please contact:



Jeff Guylay
 Managing Director
 208.726.0788
 jguylay@coladv.com



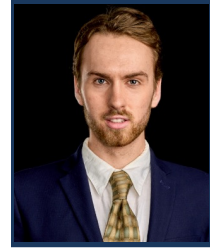
Gina Cocking
 Managing Director
 312.425.8145
 gcocking@coladv.com



Matt Magee
 Sr. Account Executive
 312.870.6204
 mmagee@coladv.com



Greg Makoid
 Associate
 312.870.6203
 gmakoid@coladv.com



Pano Garry
 Analyst
 312.425.8162
 pgarry@coladv.com

Colonnade Advisors LLC • 600 Cleveland Street • Suite 272 • Clearwater, FL • 33755
Investment banking services provided through Colonnade Securities LLC, member FINRA

Colonnade is an independent investment bank focused on the financial services and business services sectors. Colonnade provides expert, objective advice on mergers and acquisitions, private placements, fairness opinions, valuation opinions and corporate finance issues for privately held businesses, publicly traded companies and financial sponsors. Our senior bankers bring extensive transaction experience, industry expertise, a process orientation and a sense of urgency to each engagement.

This advertisement was prepared February 2023. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: SEC filings, regulatory filings, FRED, Pitchbook, and company presentations.

©2023 Colonnade Advisors LLC.

Copyright and Other Important Information

This document, including text, graphics, logos, icons, images and the selection and arrangement thereof, is the exclusive property of Colonnade Advisors LLC and is protected by U.S. and international copyright laws. Colonnade hereby permits you, unless you are an investment bank or other financial advisor, to download, copy, distribute, publish, reproduce, cite, link or post this document or its contents subject to the following conditions: 1) you retain on any material all copyright and other proprietary notices and 2) you do not modify this document or its contents in any way. Colonnade reserves all rights not expressly granted. This document and the information that it contains are produced by Colonnade Advisors LLC solely for general background information on the matters described. This document or any of its information may not be used for investment, valuation or accounting purposes. None of Colonnade or its representatives or affiliates has agreed to or has assumed any responsibility to provide you with investment advice, whether in a fiduciary capacity or otherwise.