

A 3D architectural rendering of several skyscrapers of varying heights and designs, including one with a curved facade and another with a grid-like facade. The buildings are placed on large, light blue puzzle pieces that are scattered on a light blue background with a faint grid and network-like patterns. The overall color palette is light blue and white.

M&A Quarterly Update: 2023 Second Quarter



Mergers & Acquisitions
Capital Raising
coladv.com

Welcome to the quarterly M&A update for the second quarter of 2023.

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

OUR QUARTERLY UPDATE COVERS:

- 1 Quarterly M&A Activity (North America)
- 2 Quarterly Financial Services M&A (North America)
- 3 Deal Multiples (U.S.)
- 4 Sponsor vs. Corporate M&A (Global)

1 QUARTERLY M&A ACTIVITY (NORTH AMERICA)

North American M&A activity continued to decline in the second quarter of 2023. Estimated deal count and deal value both fell on a quarterly and year-over-year basis, as high interest rates and general economic uncertainty persist.

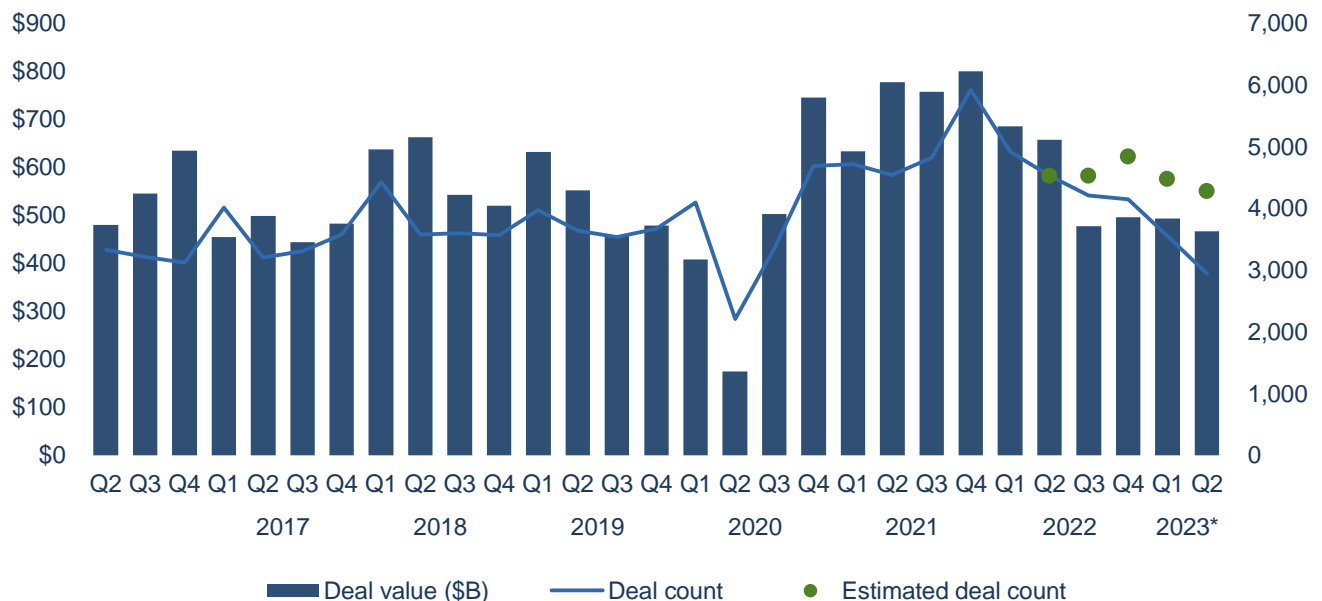
Using estimates, Q2/2023 realized 4,276 closed deals for an aggregate transaction value of just over \$466 billion.

Both estimated aggregate transaction value and deal volume declined on a quarter-over-quarter basis by 5.5% and 4.5%, respectively.

The estimated second quarter of 2023 results indicate a 29.0% decrease in aggregate transaction value and a 5.6% decrease in deal count from Q2/2022.

QUARTERLY NORTH AMERICAN M&A ACTIVITY¹

(\$ in billions)



¹Pitchbook | Geography: North America | *as of June 30, 2023

Significant interest rate increases have caused inflation to slow in recent months, although it remains at higher levels than most of the last decade. Many wonder whether the Federal Reserve will pause rate hikes this year as the economy continues to feel the effects of the high-rate environment. However, Chairman Jerome Powell has left the door open for future increases as inflation levels remain above the Fed’s 2% target.



“Inflation has consistently surprised us, and essentially all other forecasters, by being more persistent than expected. And I think we’ve come to expect that — expect it to be more persistent.”



-Jerome Powell, Chairman
Federal Reserve (June 2023)

The following chart depicts the latest inflation trend:

RATE OF INFLATION – CONSUMER PRICE INDEX²



²FRED as of Jun. 30, 2023

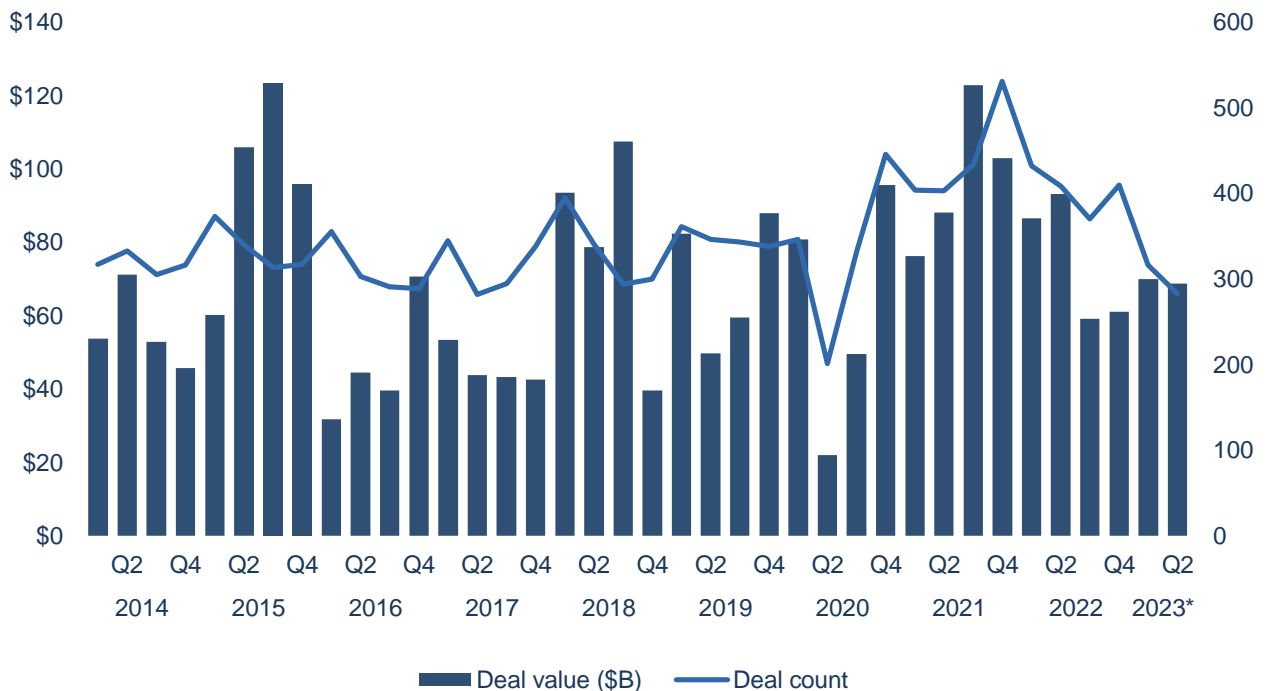
2 QUARTERLY FINANCIAL SERVICES M&A (NORTH AMERICA)

Aggregate North American financial services M&A deal volume continued to decline in the second quarter of 2023 following the recent bank failures at the tail end of Q1.

As industry participants look to reallocate resources to align portfolios more effectively with their core business objectives, there is an increased focus on divestitures and other smaller transactions. Certain new entrants are also looking to capitalize on the market uncertainty to gain access to the sector. Heading into early Q3, the financial services industry is regaining stability as it adapts to changing market dynamics.

QUARTERLY FINANCIAL SERVICES M&A ACTIVITY³

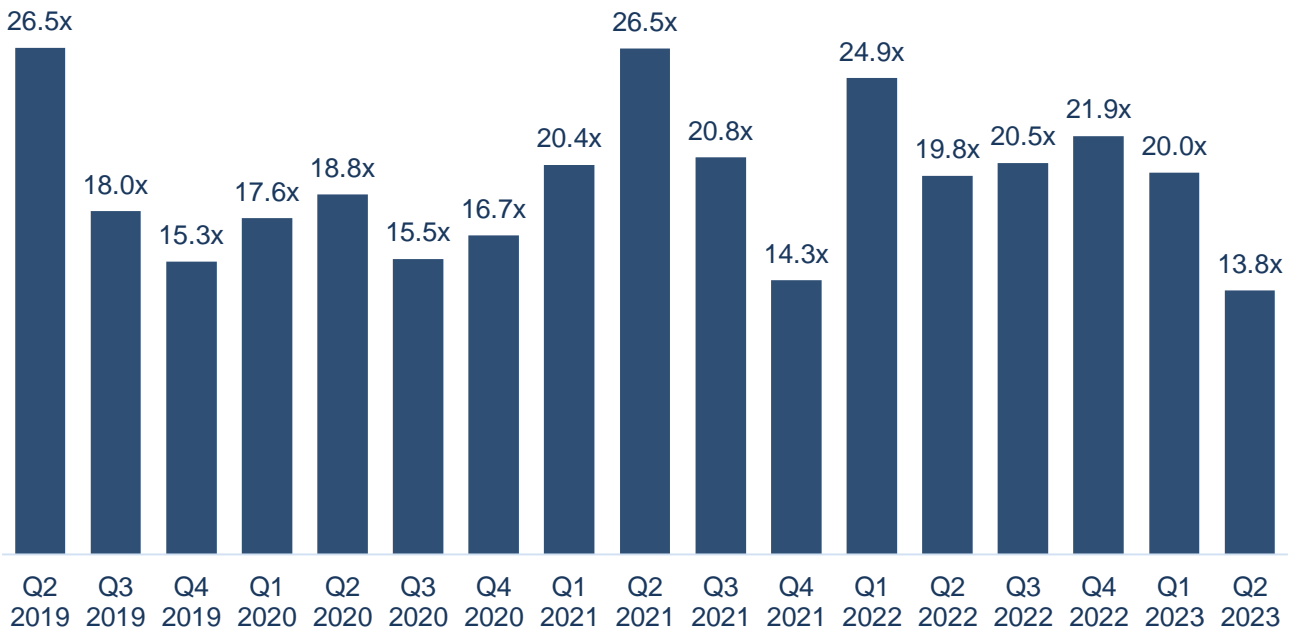
(\$ in billions)



³Pitchbook | Geography: North America | *as of Jun. 30, 2023

3 DEAL MULTIPLES (U.S.)

Transaction multiples in the United States declined further in Q2/2023. The average Enterprise Value / EBITDA multiple was 13.8x, representing the lowest multiple level since Q2/2018, which saw an average of 12.8x. Given the macroeconomic uncertainty, buyers are becoming less flexible on transaction pricing.

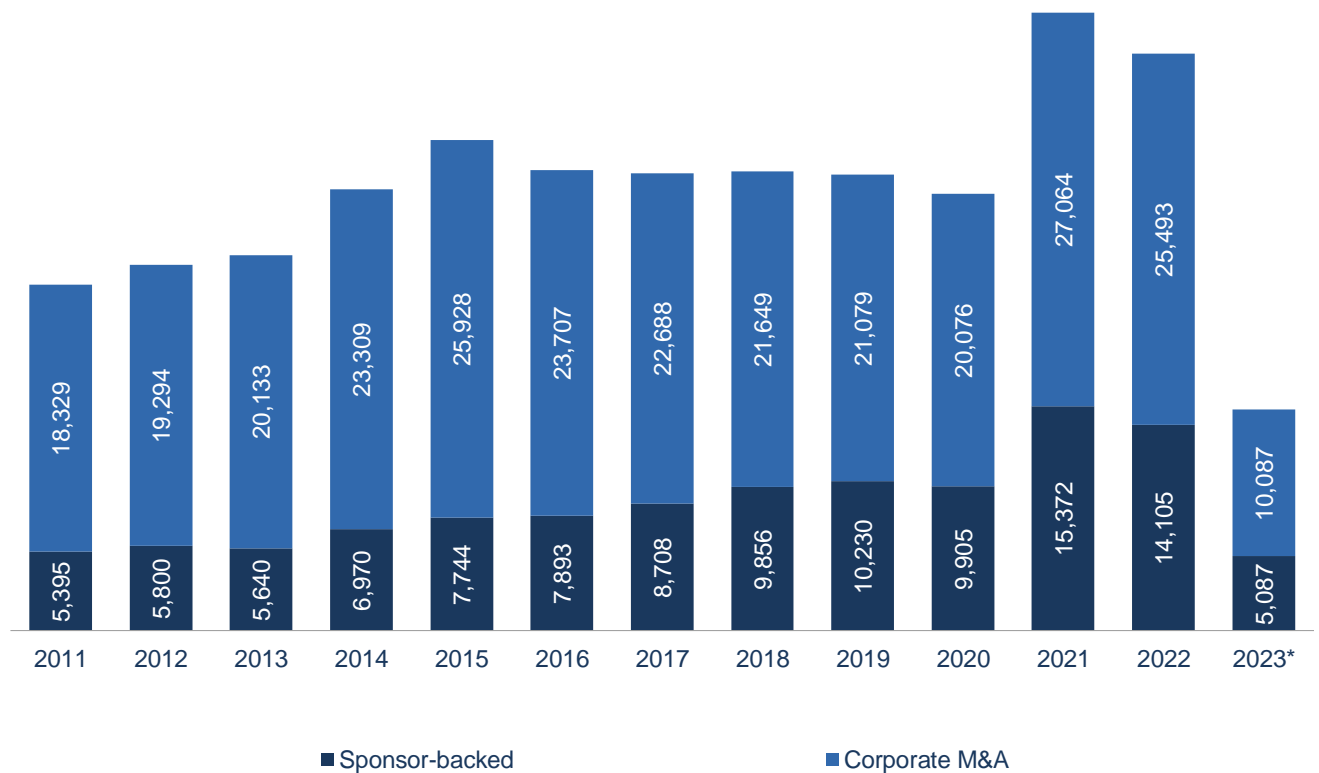


4 SPONSOR VS. CORPORATE M&A (GLOBAL)

Sponsor-backed transactions fell for the sixth consecutive quarter, declining by 16.8% in Q2/2023. Private equity accounted for 33.3% of all deals globally in the second quarter of 2023. Interest rate hikes continue to drive up the cost of capital, causing sponsors to reduce deal volume and impose more rigorous diligence standards.

Nevertheless, private equity dealmaking as a percentage of total M&A activity remained higher in Q2 than in the last decade. Furthermore, significant dry powder remains to be deployed⁴, indicating that fund managers will likely continue seeking the right opportunities to put their capital to work.

M&A DEAL ACTIVITY BY ACQUIRER TYPE⁵



⁴S&P Global

⁵Pitchbook | Geography: North America | *as of Jun. 30, 2023

CONCLUSION

M&A activity decreased further in the second quarter of 2023. Higher interest rates, tighter credit availability, and general economic uncertainty continue to pose headwinds for dealmaking across sectors.

The financial services industry saw another drop in volume as companies focused on core business strategy. Private equity activity also slowed further as financing costs remained high.

Despite the persistent challenges facing the M&A market, there is cautious optimism that activity could pick up as firms look to capitalize on lower valuations and financial sponsors seek to deploy significant dry powder.

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

Sources: Pitchbook, S&P Global, FRED, New York Times, and Colonnade research

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