

A 3D architectural rendering of several skyscrapers, some with curved facades and others with grid patterns, standing on large, interlocking puzzle pieces. The background is a blurred cityscape with more buildings. The overall color palette is light blue and white.

M&A Quarterly Update: 2023 Third Quarter



Mergers & Acquisitions
Capital Raising
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Welcome to the quarterly M&A update for the third 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 28-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 saw a further decline in the third quarter of 2023. Estimated deal count and deal value both fell on a quarterly and yearly basis, as high interest rates and uncertain economic conditions continued to challenge the market.

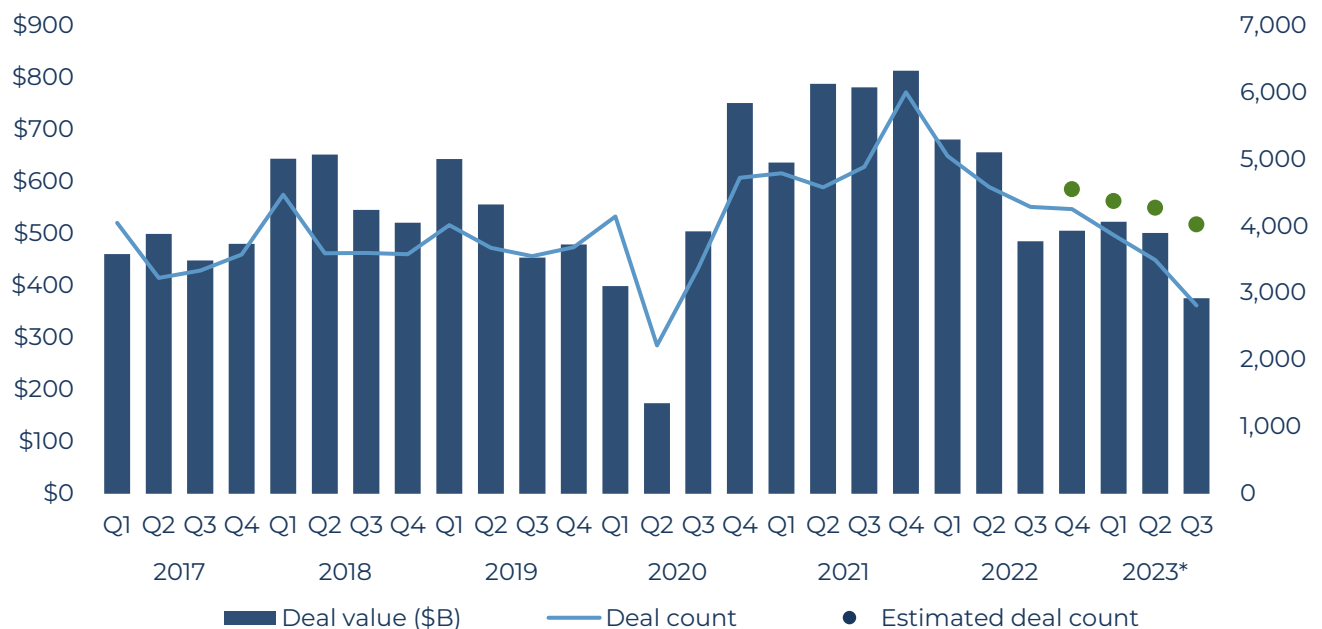
Using estimates, Q3/2023 realized 4,022 closed deals for an aggregate transaction value of just over \$375 billion.

On a quarter-over-quarter basis, estimated aggregate transaction value declined significantly, down 25.1%, while deal volume dropped 5.8%.

The third quarter estimated deal values and counts also fell year-over-year, declining 22.6% and 6.1%, respectively, from Q3/2022.

QUARTERLY NORTH AMERICAN M&A ACTIVITY¹

(\$ in billions)



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

After slowing slightly in Q3/2023, inflation is down more than 5% from its peak in 2022. The prices of core goods fell, partially driven by declining used car and truck values. However, upward pricing pressure persists in many areas of the economy, including rent and housing prices. As of October, the Federal Reserve left the benchmark rate unchanged. However, the Fed stated that potential hikes may occur should inflationary pressures rise, leaving expert opinions mixed over the future of inflation and interest rates.



“Overall, the big picture is that inflation is much lower overall than last year. The Fed rate hike action has had impact. That said, they’re not across the finish line.”

us bank *-Beth Ann Bovino, Chief Economist
U.S. Bank (Sep. 2023)*

The following chart depicts the latest inflation trends:

RATE OF INFLATION – CONSUMER PRICE INDEX²



²FRED as of Sep. 30, 2023

2 QUARTERLY FINANCIAL SERVICES M&A (NORTH AMERICA)

The North American financial services M&A market showed signs of a potential rebound in Q3/2023 after struggling through the first two quarters of the year. The median TTM financial services deal value hit \$53.9 million, putting it above a pre-pandemic median of \$50.9 million³.

Select large deals across the fintech and insurance sectors helped drive up valuations, but overall volume was still well below the record-breaking levels seen in 2021. Bank M&A activity remained slow as uncertainty remained in the market given concerns over liquidity, interest rates, and geopolitical events.

QUARTERLY FINANCIAL SERVICES M&A ACTIVITY³

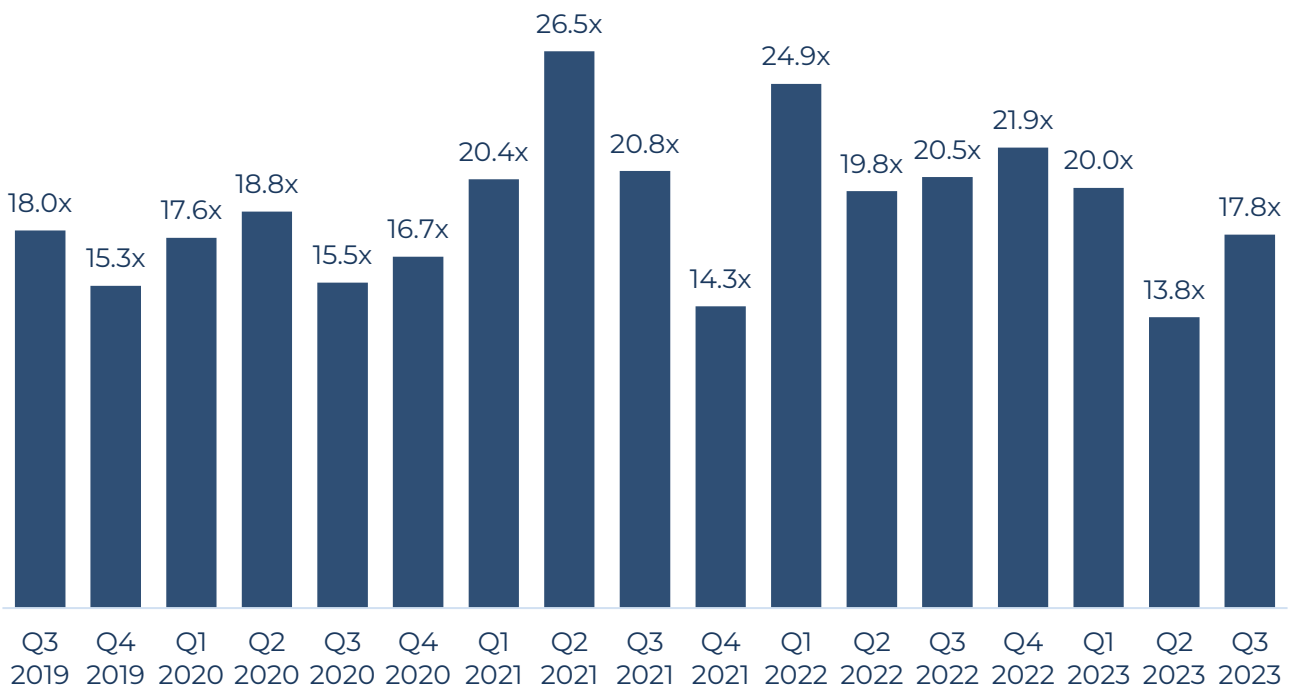
(\$ in billions)



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

3 DEAL MULTIPLES (U.S.)

Transaction multiples in the United States saw a partial recovery in Q3/2023, but are still lower than many previous quarters. The average Enterprise Value / EBITDA multiple was 17.8x, a 32.8% decline from a high in Q2/2021, but 29.0% higher than Q2/2023. A rebound in deal multiples reflects rising U.S. public equity market valuations, with many investors appearing more optimistic than in previous quarters.



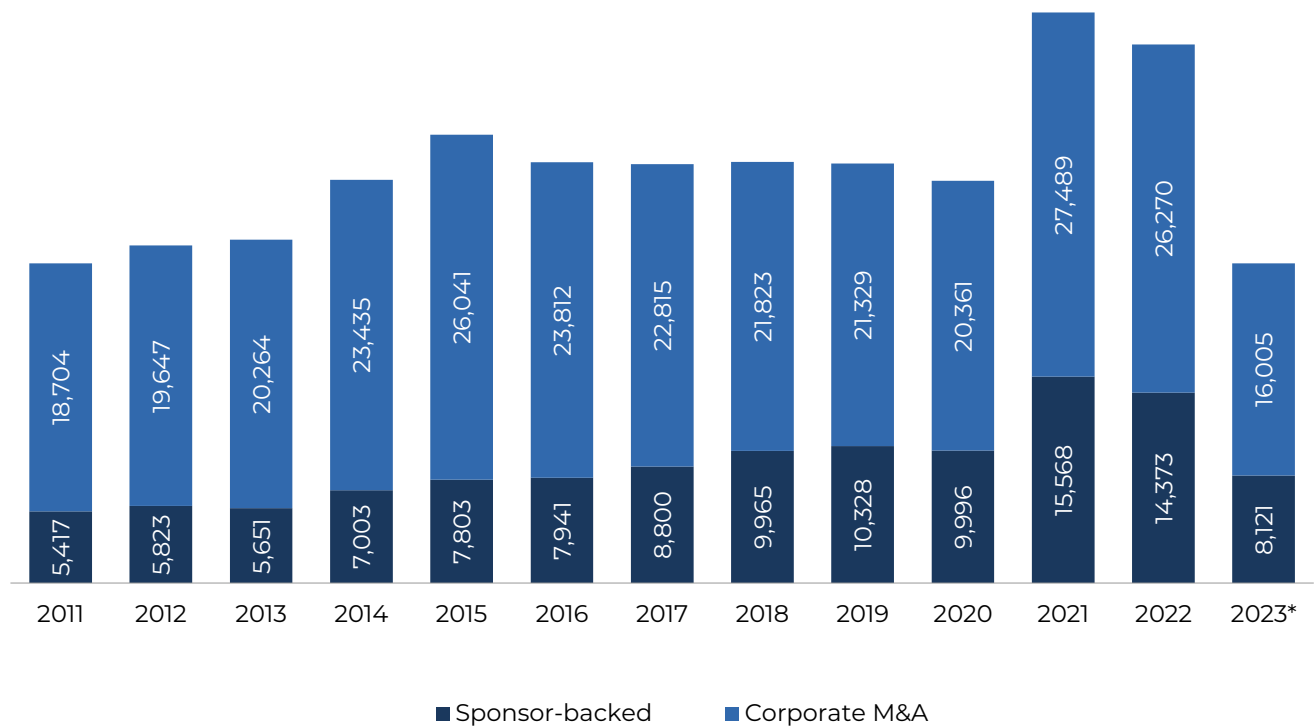
4 SPONSOR VS. CORPORATE M&A (GLOBAL)

Sponsor-backed transactions fell 18.5% in Q3/2023, the seventh consecutive quarter with a decline. Private equity made up 33.1% of global deals in Q3, down 4.8% from its peak in Q4/2021.

High funding costs continued to reduce access to capital, with the debt/EV ratio of U.S. leveraged buyouts financed falling below 44%, the lowest level since 2005⁴. Many funds displayed more interest in growth deals rather than platform LBOs.

Private equity fundraising through the first three quarters of 2023 was down 13% from the prior YTD but fared better than expectations given the record levels in 2022⁴. Significant dry powder remains in the market as sponsors continue to look for ways to deploy capital strategically.

M&A DEAL ACTIVITY BY ACQUIRER TYPE⁴



⁴Pitchbook | Geography: North America | *as of Sep. 30, 2023

CONCLUSION

The North American M&A market continued to decline in the third quarter of 2023 as dealmakers remained hesitant given the lingering macroeconomic uncertainty and geopolitical concerns.

High funding costs drove down financial sponsor activity, with PE firms looking beyond traditional LBOs to get transactions done. Bank M&A was also slow this quarter, although other areas of the financial services sector began to show signs of life.

Despite the sustained M&A slowdown, significant dry powder remains in the private equity market, with U.S. corporations holding significant cash balances, giving some experts hope that dealmaking activity could be poised for a rebound as economic conditions improve.

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

Sources: Pitchbook, FRED, S&P Global, NBC, and Colonnade research

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