M&A Quarterly Update: 2024 First Quarter

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Welcome to the quarterly M&A update for the first quarter of 2024.

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 29-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)

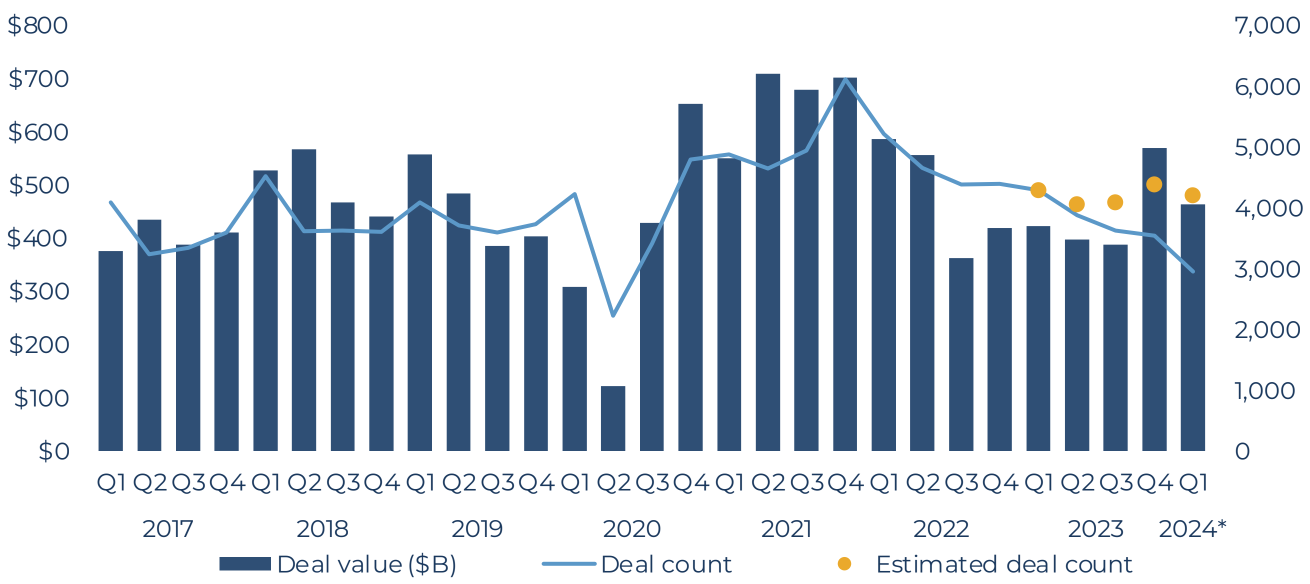
North American M&A activity remained sluggish in the first quarter of 2024. Following a strong year end, deal value declined during Q1/2024, but remains above most of 2022 and 2023. Estimated deal count remained relatively consistent with prior years.

Using estimates, Q1/2024 realized 4,204 closed deals for an aggregate transaction value of $464 billion.

On a quarter-over-quarter basis, estimated aggregate transaction value fell 18.9% and deal volume dropped 4.0%. Year-over-year, first quarter estimated deal value rose 9.7%, while counts declined 2.0% from Q1/2023.

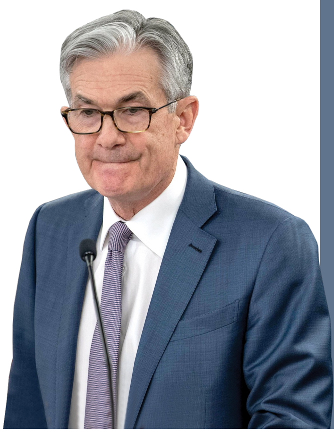
QUARTERLY NORTH AMERICAN M&A ACTIVITY[1]

($ in billions)



[1]Pitchbook | Geography: North America | *as of Mar. 31, 2024

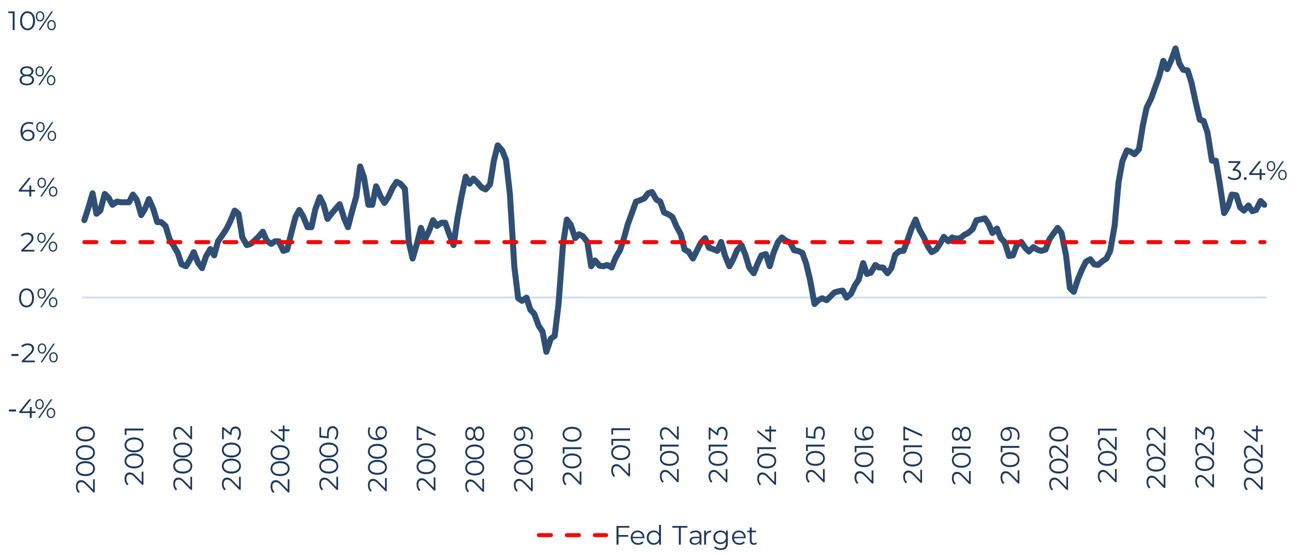
After declining significantly from its highs in mid-2022, inflation has been hovering in the low 3% range for the past two quarters. The Federal Reserve has reiterated its commitment to returning to its 2% target on multiple occasions and has held interest rates steady to apply continued downward pressure. Although experts agree that additional rate hikes are unlikely, opinions remain mixed on when rate cuts will take place.



> "The economy has made considerable progress toward our dual-mandate objectives. Inflation has eased substantially while the labor market has remained strong, and that is very good news. But inflation is still too high, ongoing progress in bringing it down is not assured, and the path forward is uncertain. We are fully committed to returning inflation to our 2 percent goal. Restoring price stability is essential to achieve a sustainably strong labor market that benefits all."
>
> *-Jerome Powell, Chairman*
> *Federal Reserve (Mar. 2024)*

The following chart depicts the latest inflation trends:

RATE OF INFLATION – CONSUMER PRICE INDEX[1]



[1]FRED as of Mar. 31, 2024

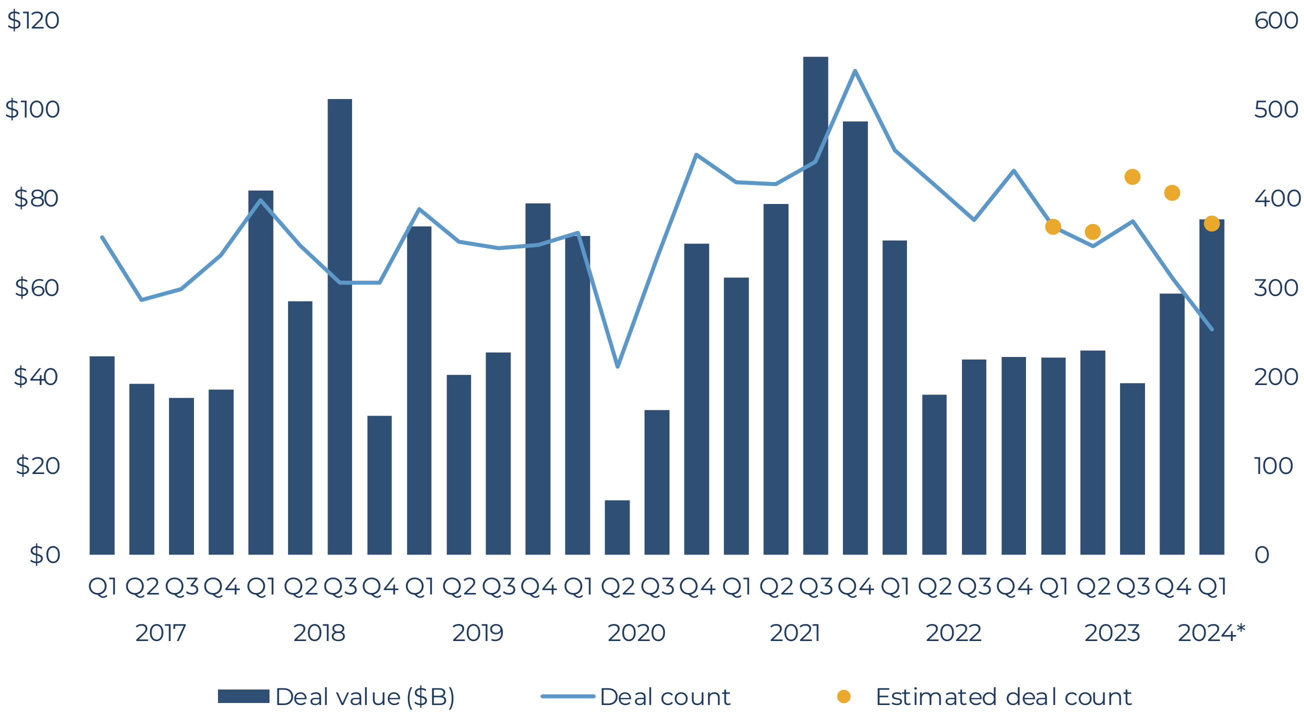
2 QUARTERLY FINANCIAL SERVICES M&A (NORTH AMERICA)

A select few megadeals drove Q1/2024 financial services deal value up 28.6% quarter-over-quarter. The largest Q1 transaction is the pending $35 billion acquisition of Discover Financial Services by Capital One, which is currently being reviewed by regulators. This was followed by the sale of Truist Insurance Holdings to Clayton, Dubilier & Rice and Stone Point Capital for $16 billion, and BlackRock's $13 billion acquisition of Global Infrastructure Partners.[1]

Despite the uptick in deal value, deal count declined 8.6% quarter-over-quarter. Companies in longer-term, fixed-rate asset classes (such as equipment finance) continue to be negatively impacted by elevated interest rates with earnings facing significant downward pressure making it an inopportune time to transact. Certain subsectors did show signs of life, including fintech and insurance, with the latter representing more than one-third of all first quarter financial services transactions.[1]

QUARTERLY FINANCIAL SERVICES M&A ACTIVITY[1]

($ in billions)



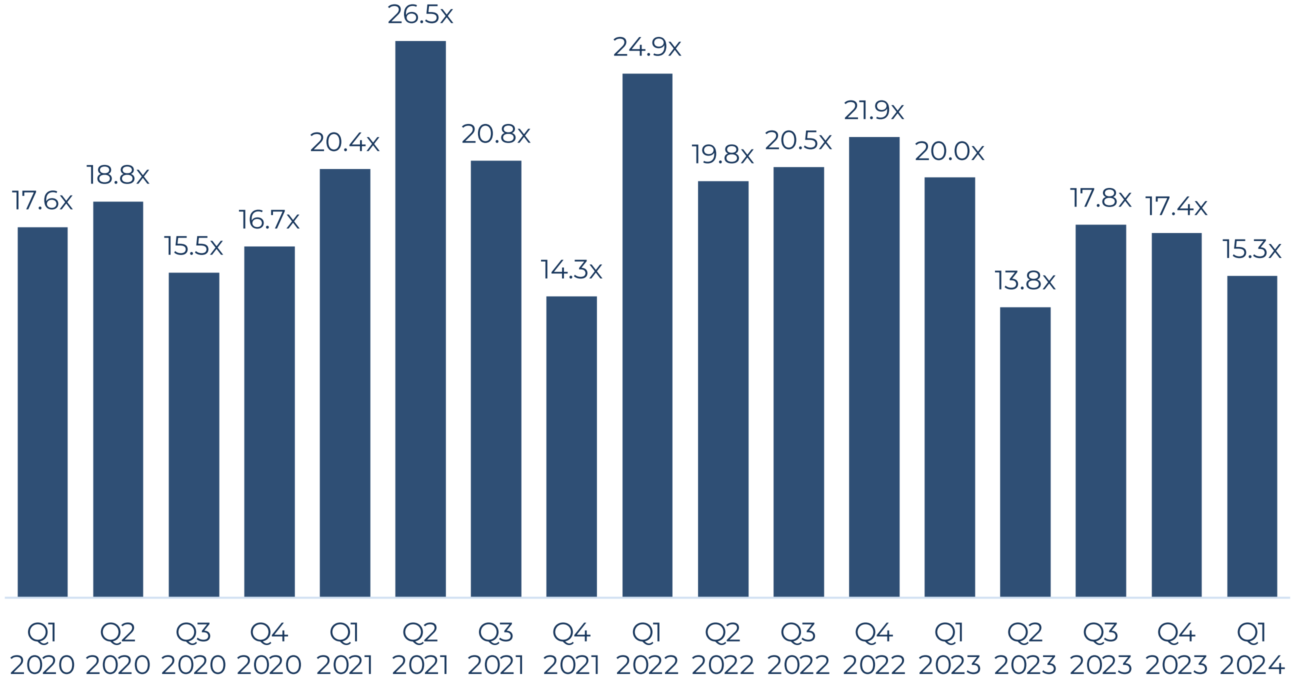
[1]Pitchbook | Geography: North America | *as of Mar. 31, 2024

3 DEAL MULTIPLES (U.S.)

EV/EBITDA multiples in the United States decreased in the first quarter of 2024, down 11.7% from Q4/2023. First quarter EV/Revenue multiples were also down from Q4 but remained higher than much of 2023.

The technology, energy, healthcare, and B2C sectors all saw an increase in EV/EBITDA multiples through certain megadeals and a general rise in valuations.

EV/EBITDA MULTIPLES

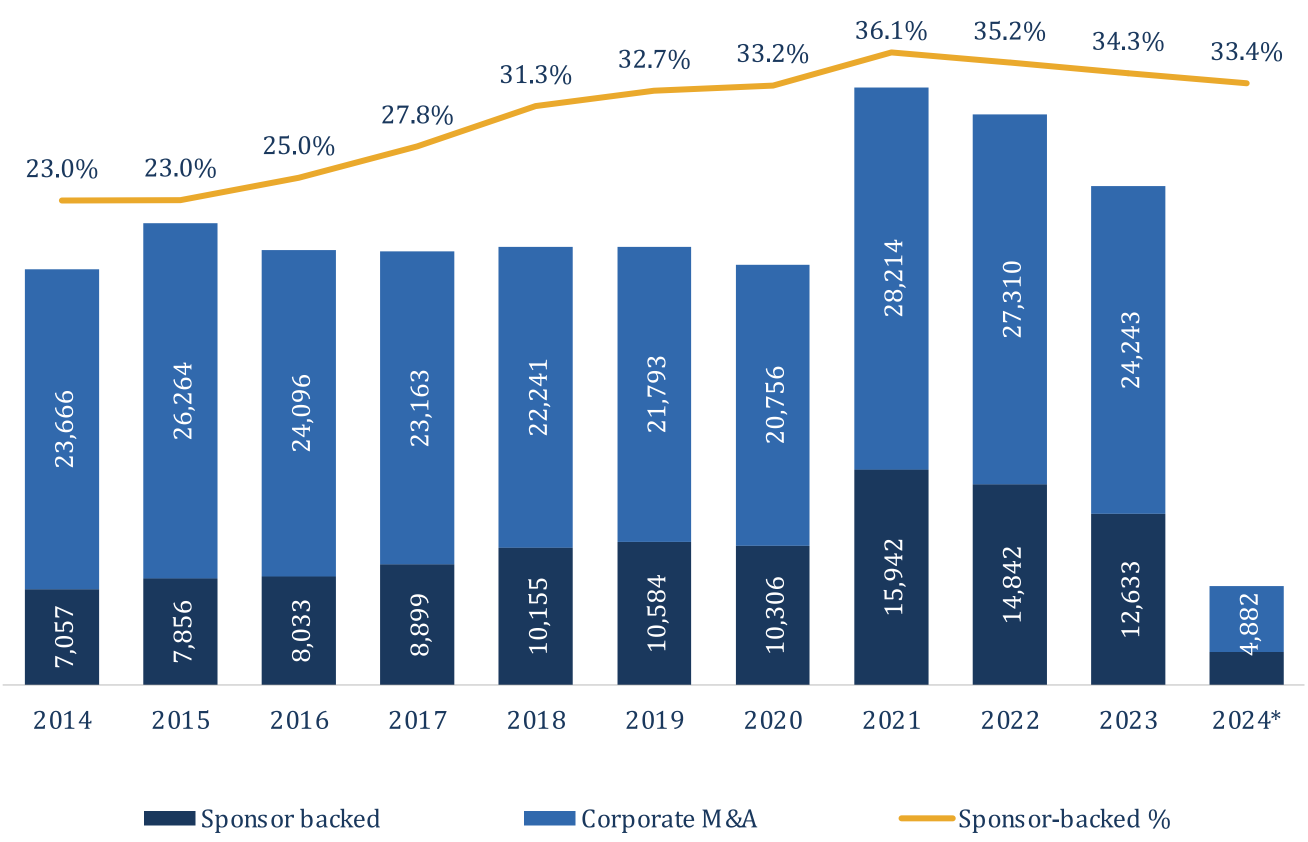


4 SPONSOR VS. CORPORATE M&A (GLOBAL)

Sponsor-backed transactions as a percent of total deals declined slightly in Q1/2024, down 2.5% quarter-over-quarter. Private equity made up 33.4% of all transactions in the first quarter, down 4.5% from a peak in Q4/2021. Exit activity also fell 19.1% quarter-over-quarter.

Although financial sponsor dealmaking has yet to return to 2021 and 2022 levels, it remains well above the post-financial crisis, pre-COVID-19 average. Higher borrowing costs have slowed transaction activity in recent quarters, but nearly $1 trillion in dry powder remains to be deployed[1], giving private equity the capital to remain active in the M&A market.

M&A DEAL ACTIVITY BY ACQUIRER TYPE[2]



[1]Juniper Square | as of Mar. 31, 2024
[2]Pitchbook | Geography: Global | *as of Mar. 31, 2024

CONCLUSION

North American M&A activity was slow in Q1/2024, as inflation remained higher than expected and interest rate cuts continue to be pushed further into the future.

Significant private equity dry powder remaining has kept sponsor M&A activity above pre-COVID levels, and there were some promising year-over-year trends in certain sectors. However, a full market recovery is not expected until inflation moves closer to the Fed's 2% target and monetary policy eases.

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This advertisement was prepared in June 2024. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

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