M&A Quarterly Update: 2024 Second Quarter

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Quarterly M&A update for the second 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 37-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)

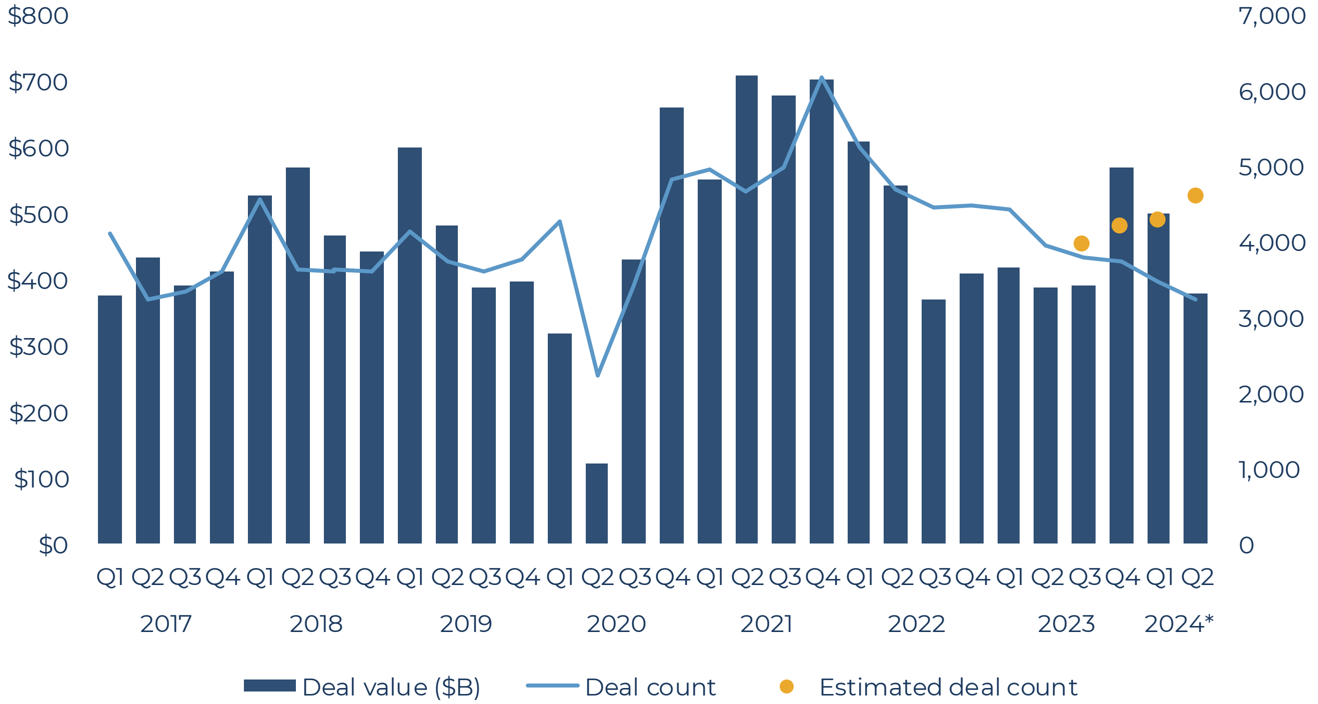
North American M&A activity increased 13.0% YTD in both deal count and value in the first half of 2024 compared to 2023. With anticipated lower interest rates in the second half of 2024, aggregate deal value and count are expected to rise further.

Using estimates, 4,593 deals closed with an aggregate transaction value of $379 billion in Q2/2024.

On a quarter-over-quarter basis, the estimated aggregate transaction value fell by 24.3% while the deal count increased by 6.9%. Smaller deals dominated the second quarter of 2024, indicating a shift in strategy due to lack of available financing options for larger deals. The largest deal in Q2 was ConocoPhillips' $23 billion acquisition of Marathon Oil.

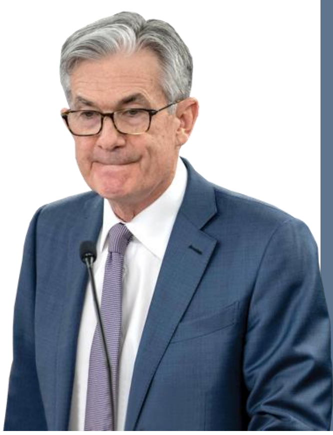
QUARTERLY NORTH AMERICAN M&A ACTIVITY[1]

($ in billions)



[1]Pitchbook | Geography: North America | *as of Jun. 30, 2024

Hovering just north of 3.0% for two consecutive quarters, inflation finally broke through and has continued its gradual approach to the Fed's target of 2.0%. The Federal Reserve has reiterated its commitment to returning to its 2.0% target on multiple occasions and has held interest rates steady to apply continued downward pressure. While rates were expected to drop in the second quarter, the Federal Reserve held rates steady, causing the inflation forecast to stay around 3.0% for the rest of 2024. The Federal Reserve is expected to gradually ease monetary policy, with rate cuts anticipated for September.

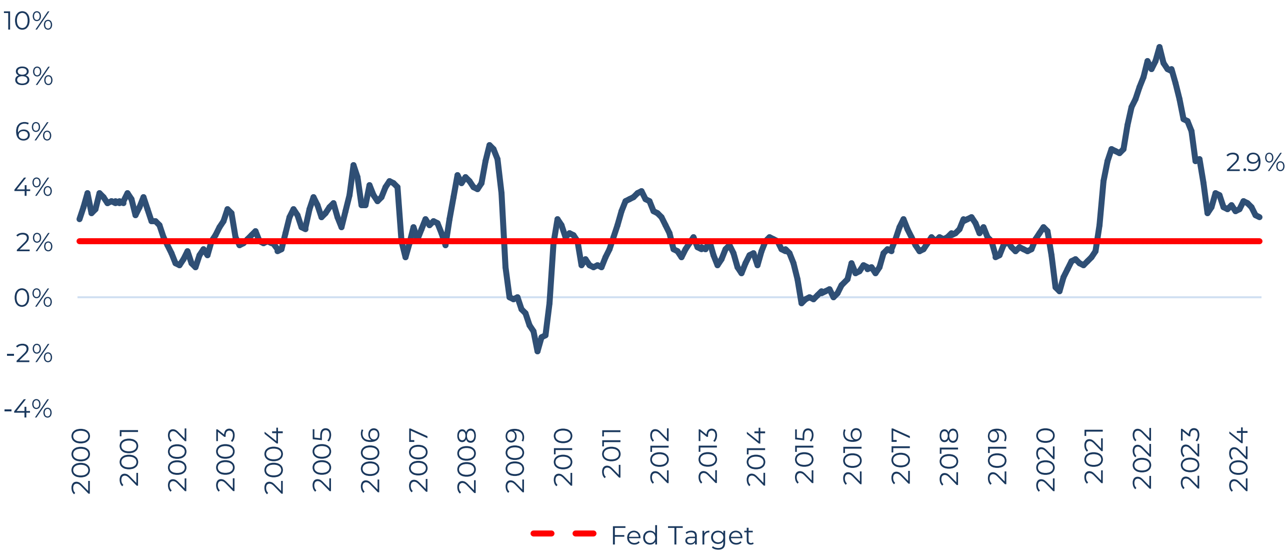


"In light of the progress made both in lowering inflation and in cooling the labor market over the past two years, elevated inflation is not the only risk we face. Reducing policy restraint too late or too little could unduly weaken economic activity and employment. In the labor market, a broad set of indicators suggests that conditions have returned to about where they stood on the eve of the pandemic: strong, but not overheated."

-Jerome Powell, Chairman
Federal Reserve (Jul. 2024)

The following chart depicts the latest inflation trends:

RATE OF INFLATION – CONSUMER PRICE INDEX[1]



[1]FRED as of Jun. 30, 2024

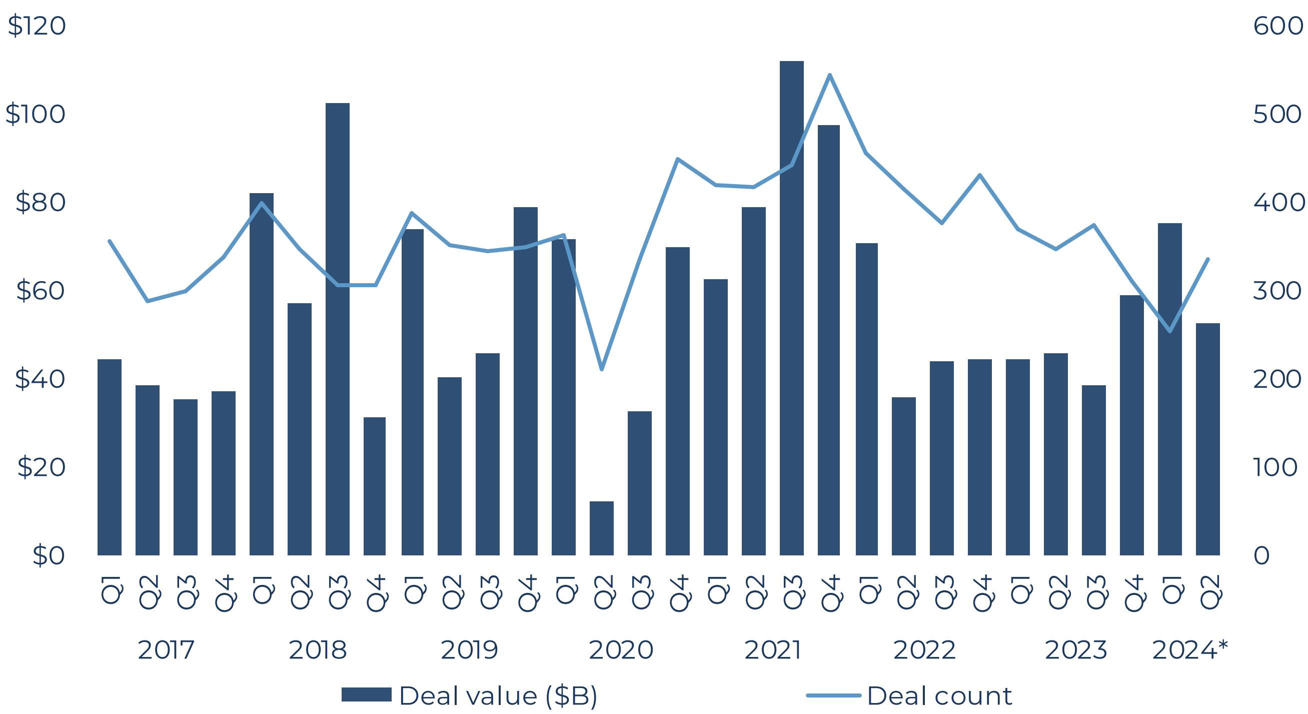
2 QUARTERLY FINANCIAL SERVICES M&A (NORTH AMERICA)

The financial services industry continues to experience consolidation, particularly in the insurance and specialty finance sectors. Aggregate underwriter deal value surged by 829.0% from Q1/2024, reaching $4.8 billion in the second quarter due to Nippon Life's $3.8 billion investment into Corebridge Financial.[1] The insurance brokerage market remains highly active, with small-cap brokerages increasingly employing roll-up strategies to accelerate market share growth through inorganic expansion.

While specialty finance activity remained relatively flat compared to the first half of 2023, aggregate transaction values in the first half of 2024 have already outpaced all of 2023.[2] The intensified scrutiny banks continue to impose on borrowers is creating an opportunity for growth among alternative lending platforms driving the expectation that transaction activity will grow throughout the second half of the year. The market saw industry leaders acquire firms to increase their portfolios, originations, and better their operations.

QUARTERLY FINANCIAL SERVICES M&A ACTIVITY[3]

($ in billions)



[1]S&P Global | *as of Jun. 30, 2024

[2]Houlihan Lokey | *as of Jun. 30, 2024

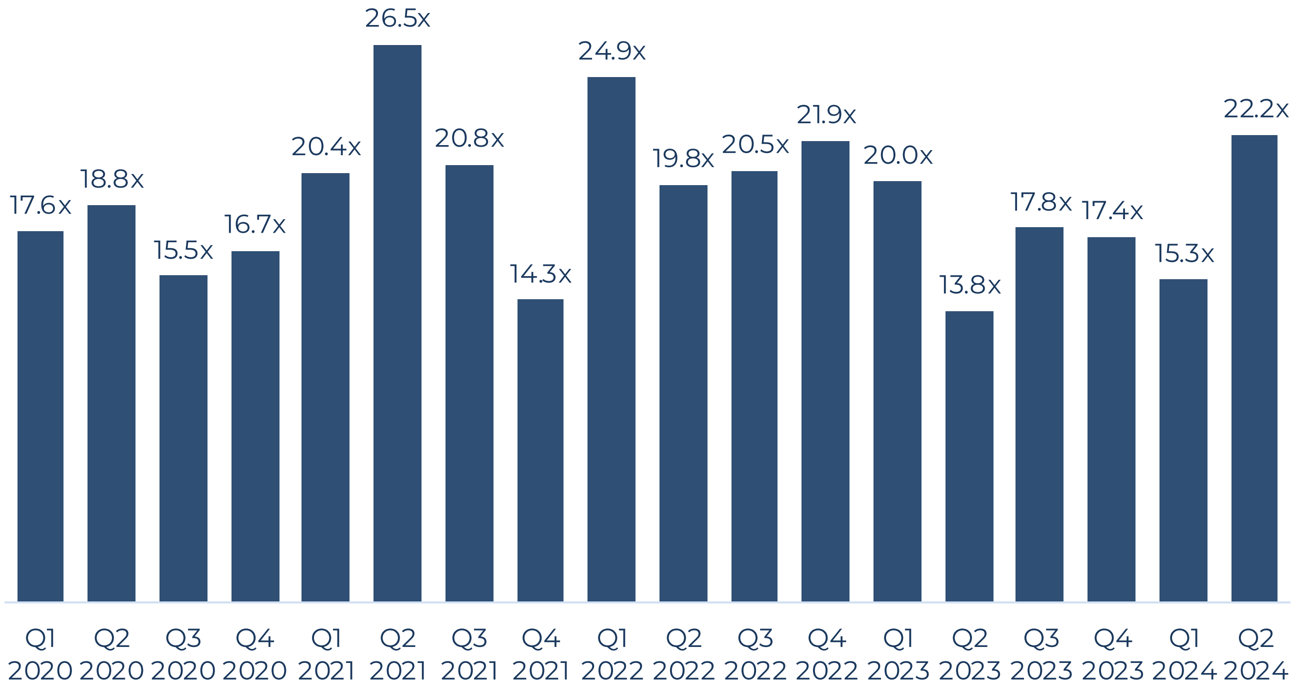
[2]Pitchbook | Geography: North America | *as of Jun. 30, 2024

3 DEAL MULTIPLES (U.S.)

EV/EBITDA multiples in the United States rebounded in Q2/2024 after a decline in 2023 and Q1/2024. Meanwhile, EV/Revenue multiples decreased slightly from 5.0x in Q1 to 4.8x in Q2. The EV/EBITDA multiples in Q2 2024 returned to levels comparable with those in 2022, reflecting a more optimistic outlook among investors on the broader economy. Higher multiples suggest that investors anticipate firms will generate larger future cash flows.

Public market valuations continue to outpace those in the private sector, even with the recent increases. Valuations are now beginning to return to levels seen in early 2021.[1]

EV/EBITDA MULTIPLES



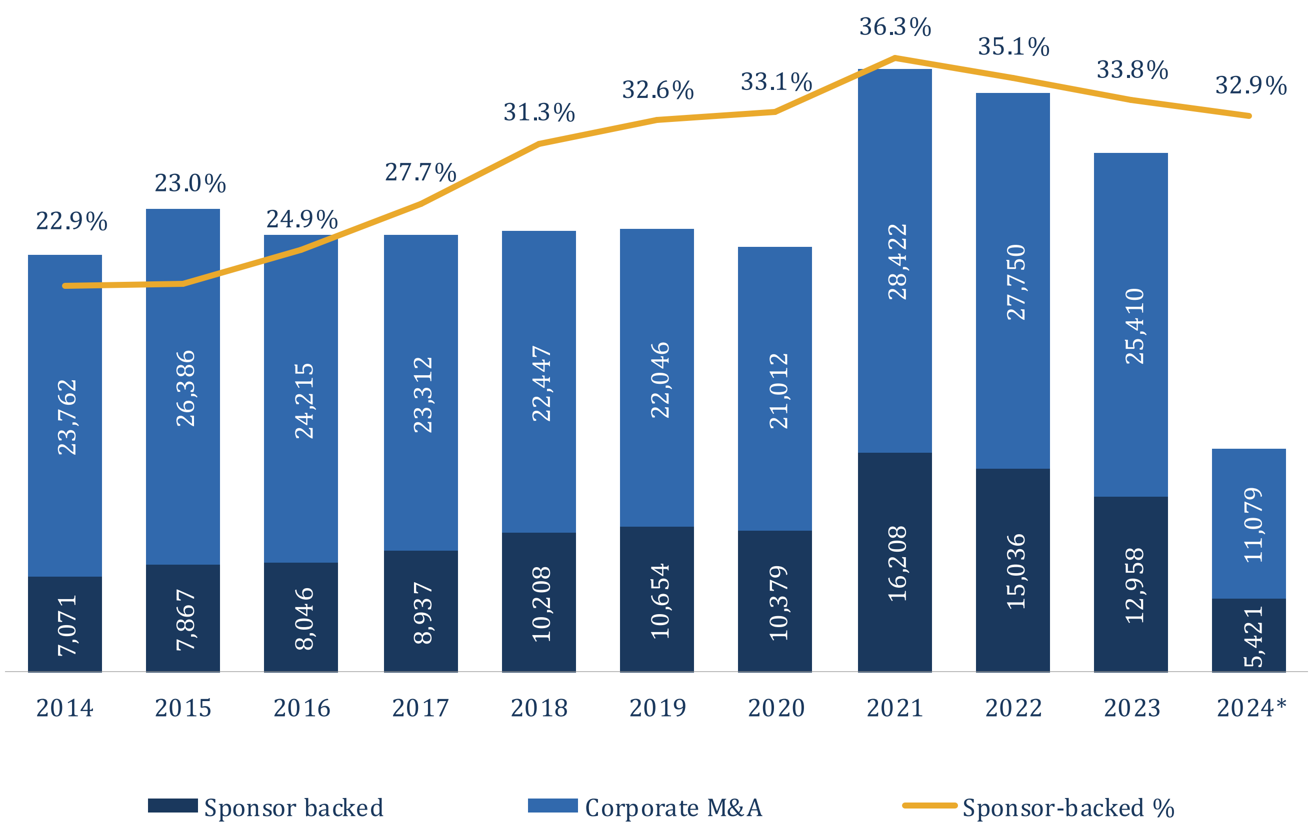
[1]Bain Capital | *as of Jun. 30, 2024

4 SPONSOR VS. CORPORATE M&A (GLOBAL)

Sponsor-backed transactions as a percent of total deals declined slightly in Q2/2024, down 0.9% since 2023. Due to the higher cost of borrowing, strategics have been resourceful at using equity as a more significant portion of total consideration.[1]

Private Equity transactions comprised 32.9% of all transactions in the second quarter of 2024. Due to the interest rate environment, deal activity has been slower for Private Equity firms. Higher interest rates have driven down the valuations of platform companies and forced holding periods to increase. The increased cost of borrowing in the current market environment results in pressure on investors' IRR targets. The Federal Reserve looks to cut rates by the end of 2024, which should increase activity in the market among sponsors looking to deploy dry powder.

M&A DEAL ACTIVITY BY ACQUIRER TYPE[2]



[1]Bain Capital | *as of Jun. 30, 2024

[2]Pitchbook | Geography: Global | *as of Jun. 30, 2024

CONCLUSION

North American M&A transaction volume continued to increase quarter over quarter while aggregate deal value declined for the overall market. Strategic acquirers once again dominated the market with higher borrowing costs causing activity to favor volume over deal size.

With the market showing signs of a mild recovery after a challenging 2023, the anticipated rate cut by the Federal Reserve in September 2024 is expected to produce more sponsor-led acquisitions. Despite suppressed levels of sponsor-led activity, record amounts of dry powder are ready for deployment in the marketplace.

Rising transaction multiples, elevated levels of dry powder, and the expectation of declining interest rates indicate that the second half of 2024 will produce robust M&A activity.

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

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