

A 3D architectural rendering of a city skyline. In the foreground, two large puzzle pieces are visible, one on the left and one on the right. On the left puzzle piece stands a tall, curved skyscraper with many windows. On the right puzzle piece stands a tall, rectangular skyscraper with a grid-like facade. The background shows a blurred cityscape with various buildings. The overall color scheme is light blue and white.

M&A Quarterly Update: 2024 Third Quarter



Mergers & Acquisitions
Capital Raising
coladv.com

Quarterly M&A update for the third 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 39-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)

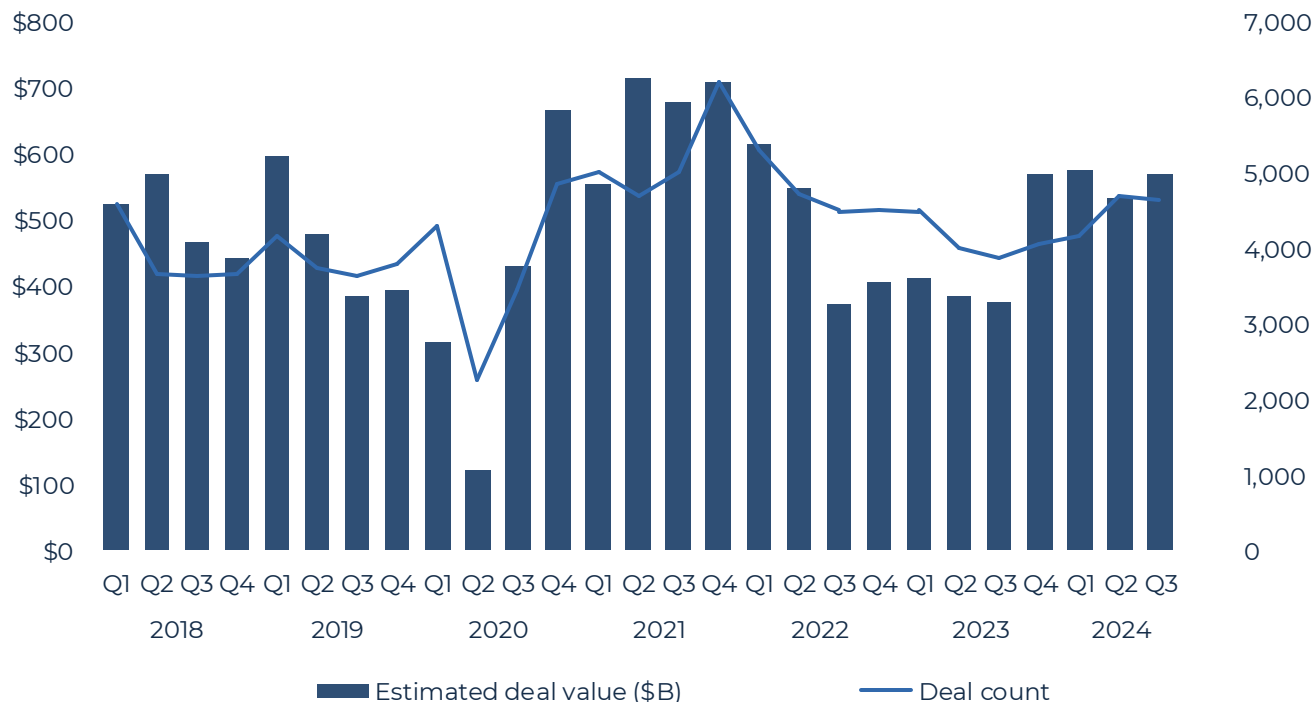
North American M&A activity has seen a year-to-date increase of 32.3% in deal value and 9.2% in deal count compared to the first three quarters of 2023. The November reduction in the federal funds rate, to a range of 4.50%-4.75%, is expected to further boost aggregate deal value and volume.

In Q3/2024, using estimates, 4,651 deals were closed totaling \$508 billion in transaction value. For the first three quarters of 2024, aggregate deal value reached \$1.6 trillion, compared to \$1.7 trillion for the entirety of 2023.

Quarter-over-quarter, estimated aggregate transaction value increased by 3.4% and deal count declined by 10 basis points, respectively. However, the first three quarters of 2024 have outpaced the same period in 2023, indicating recovery in the M&A market.

QUARTERLY NORTH AMERICAN M&A ACTIVITY¹

(\$ in billions)



¹Pitchbook | Geography: North America | *as of Sep. 30, 2024

Inflation reduced to 2.6% in Q3/2024, reflecting steady progress toward the Federal Reserve’s 2.0% target. In response, the Federal Reserve has implemented consecutive interest rate cuts, including a 25 basis point reduction in November following September’s 50 basis point cut. Alongside these adjustments, the Federal Reserve reduced its fixed income balance sheet to \$7 trillion, lowering excess liquidity in the financial system. Amid slowing payroll growth and rising unemployment, the Federal Reserve is expected to continue lowering interest rates to support the economy.¹



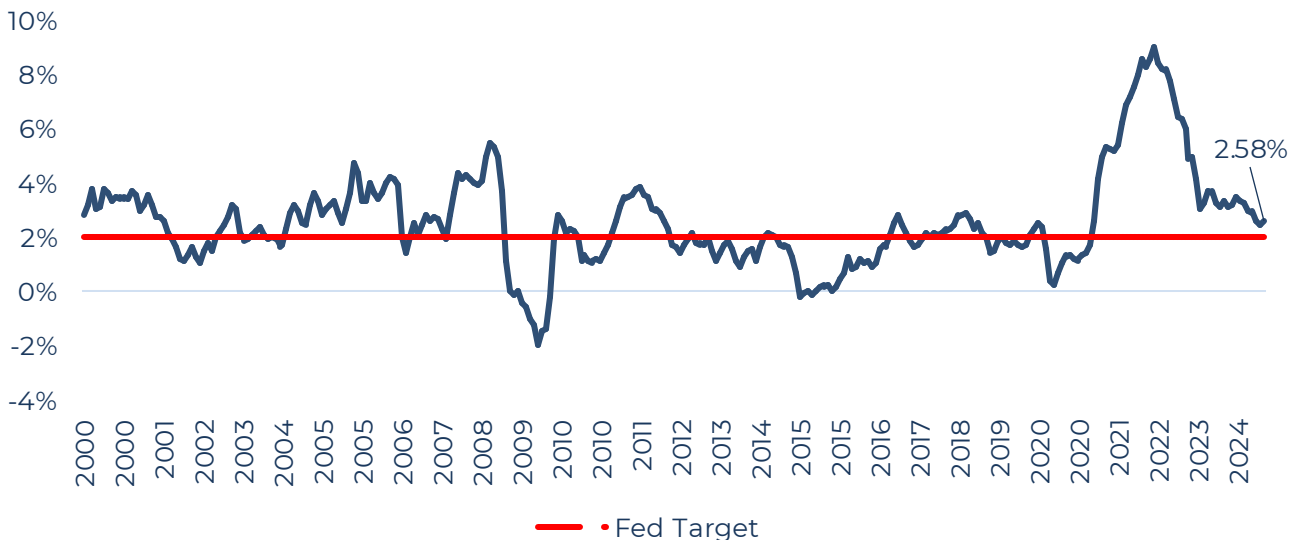
“The recent performance of our economy has been remarkably good, by far the best of any major economy in the world. Economic output grew by more than 3 percent last year and is expanding at a stout 2.5 percent rate so far this year. Growth in consumer spending has remained strong, supported by increases in disposable income and solid household balance sheets. Business investment in equipment and intangibles has accelerated over the past year.”



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

The following chart depicts the latest inflation trends:

RATE OF INFLATION – CONSUMER PRICE INDEX²



¹US Bank as of Nov.8, 2024

²FRED as of Sep.30, 2024

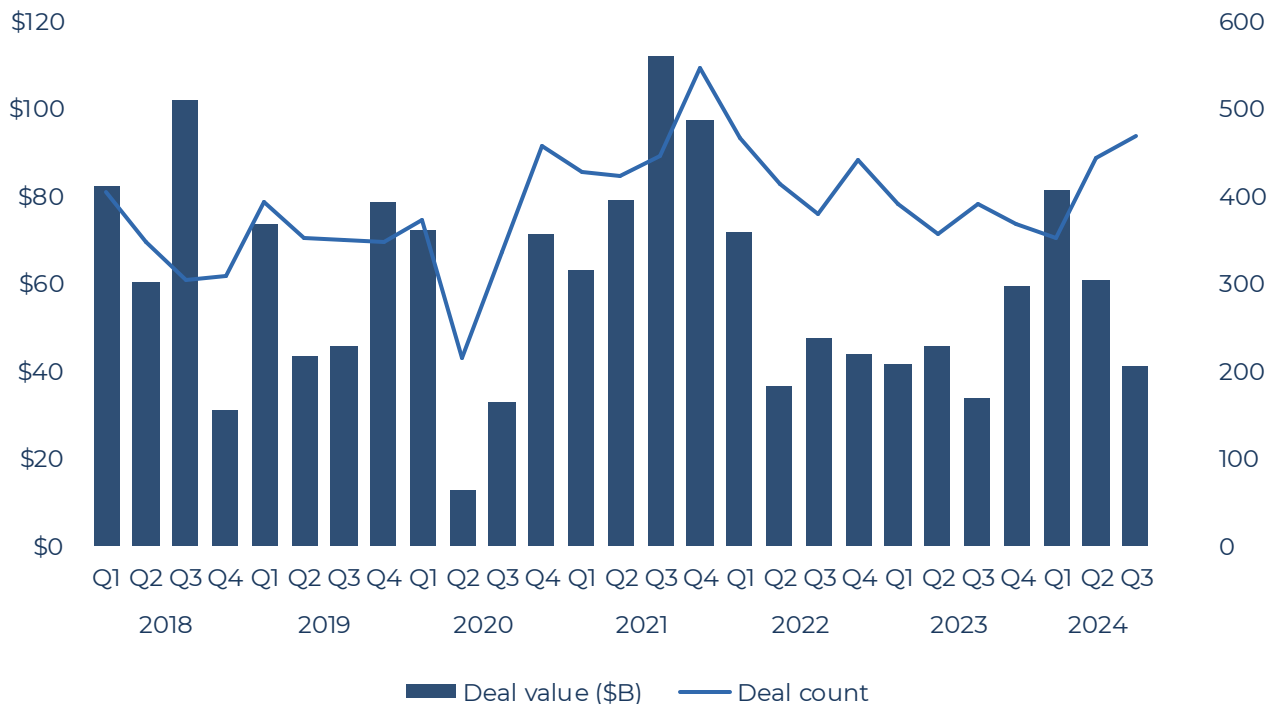
2 QUARTERLY FINANCIAL SERVICES M&A (NORTH AMERICA)

The financial services industry has experienced significant growth in 2024, with deal value surpassing full year 2023 in the first three quarters of 2024. While transaction value decreased from \$60.7 billion in Q2/2024 to \$40.9 billion in Q3, it still marked a 22.3% increase compared to Q3/2023. Year-to-date, financial services M&A activity is up 52.1% compared to the same period in 2023, highlighting robust sector performance despite quarterly market fluctuations.

Industry consolidation, driven largely by the insurance and registered investment advisor (RIA) sectors, continues to drive deal volumes. The insurance industry accounted for 198 transactions in Q3/2024 marking the first increase in deal volume in the last six quarters¹. Similarly, the RIA sector is experiencing rapid consolidation, with 191 deals closed in the first three quarters of 2024 surpassing 185 deals in all of 2023, following a trajectory similar to the insurance services industry over the past five years.² Meanwhile, the specialty finance market holds a positive outlook, as declining interest rates will help improve profitability among key market participants.

QUARTERLY FINANCIAL SERVICES M&A ACTIVITY³

(\$ in billions)



¹Insurtech | Mergers and Acquisitions | as of Oct.30,2024

²Citywire | Mergers and Acquisitions | as of Oct.30,2024

³Pitchbook | Geography: North America | *as of Jun. 30, 2024

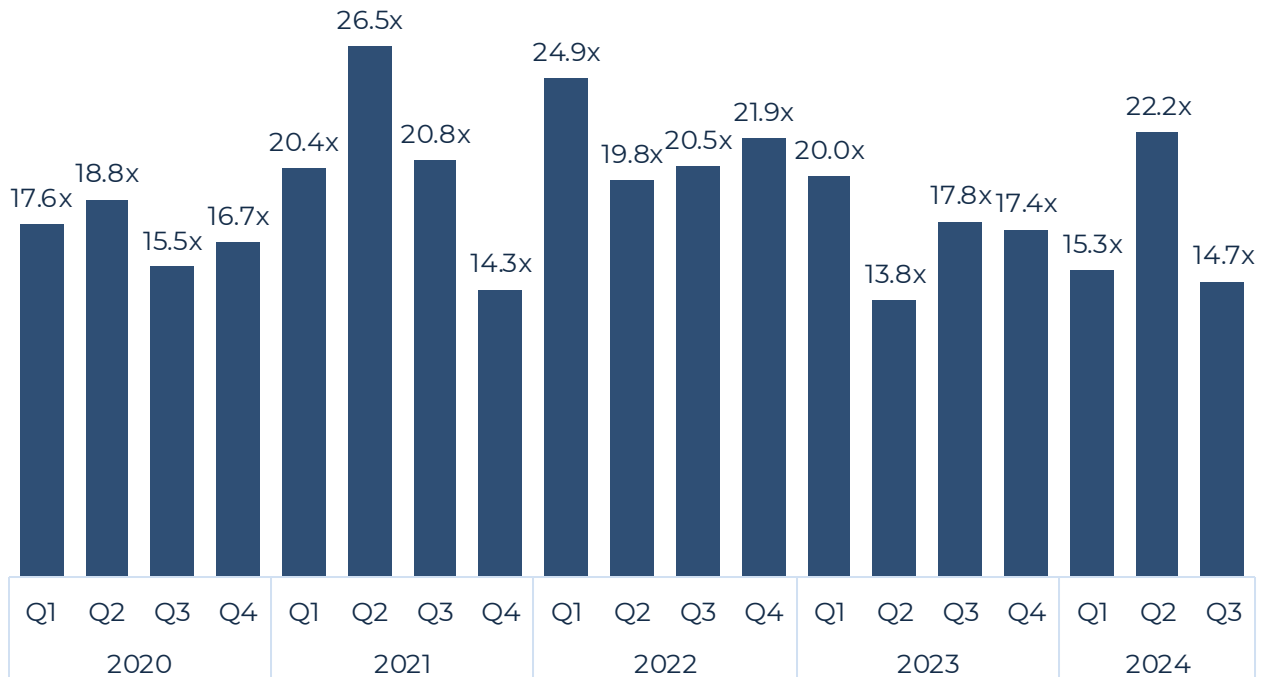
3 DEAL MULTIPLES (U.S.)

EV/EBITDA multiples in the United States fell in Q3/2024 to 14.7x after a spike in Q2/2024. EV/Revenue multiples decreased slightly from 4.8x in Q2 to 4.3x in Q3. Valuations decreased to one of the lowest levels since 2020. EV/EBITDA multiples have continued to decline since their peaks in 2022. The decline can be attributed to a high-interest rate environment resulting in higher costs of borrowing, decreased valuations from higher discount rates, and a slowing U.S. economy.

While private market multiples are down roughly 25.0% from their peaks, similarly to Q2, public market EV/EBITDA multiples continue to increase. Trading multiples on public companies have increased by 17.0% over the last two years. The gap between private and public markets continues to increase.

Transaction volume driving EV/EBITDA multiples was primarily from the healthcare, IT, and financial services sectors.

EV/EBITDA MULTIPLES

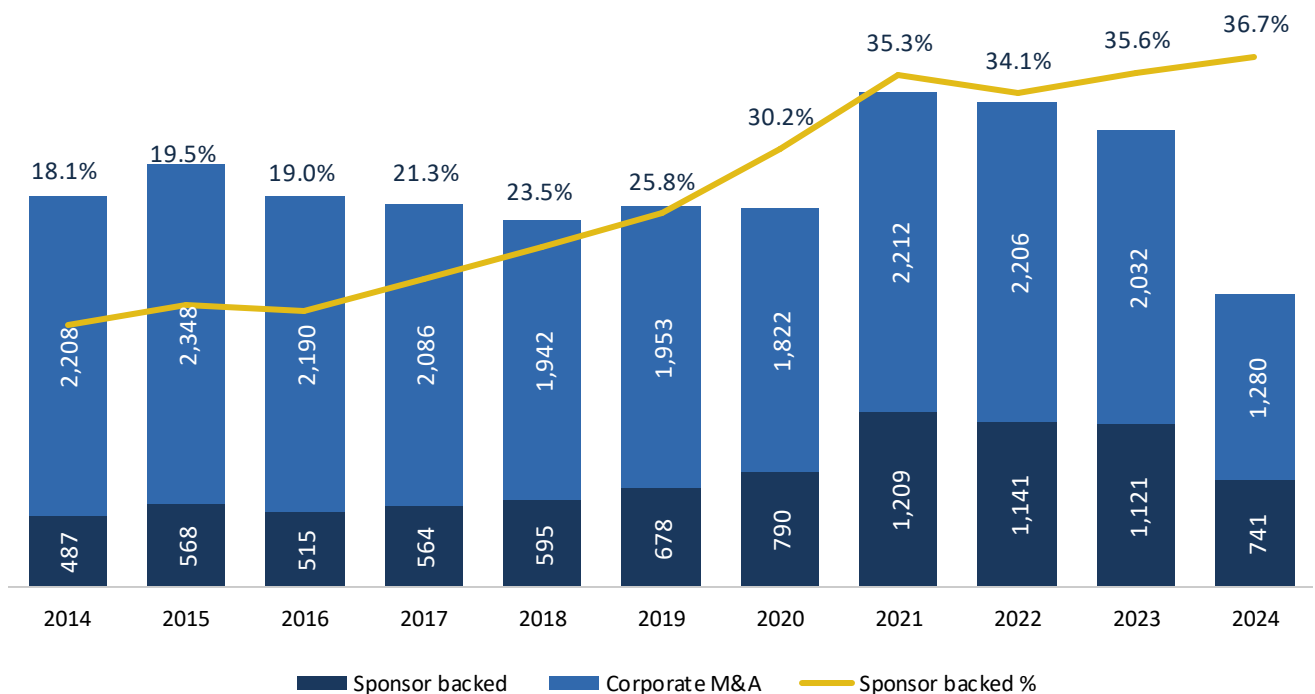


4 SPONSOR VS. CORPORATE M&A (GLOBAL)

Sponsor-backed transactions as a percent of total deals increased by 110 basis points since 2023. The decline in interest rates continues to fuel the resurgence of financial buyers in the M&A market. Private equity backed transactions have risen to 41.2% of all acquisitions in Q3/2024.

The increase in Private Equity activity can be attributed to increased activity in the lending market. With reductions in interest rates, the last quarter has begun to display a shift away from non-bank lenders, helping drive decreased costs of borrowing. Private Equity firms look to deploy nearly \$3.0 trillion of dry powder that they have been sitting on as buyout transaction values grew at 24.0%.

M&A DEAL ACTIVITY BY ACQUIRER TYPE²



¹S&P Global | *as of Sep. 30, 2024

²Pitchbook | Geography: Global | *as of Sep. 30, 2024

CONCLUSION

North American M&A transaction volume remained flat while deal value increased quarter-over-quarter with overall activity on track to exceed 2023 levels, driven largely by the financial services sector. Strategic acquirers continue to play a significant role in deal-making, while Private Equity is gaining market share.

The recent declines in interest rates are driving heightened activity in lending markets, with banks driving competition to secure deals. The shift creates a more favorable environment for borrowers, encouraging greater participation across the market. As borrowing costs improve, Private Equity firms are expected to capitalize on the opportunity by deploying their record levels of dry powder, which have been strategically held back during periods of higher rates.

The market continues to show signs of recovery, with consecutive rate cuts by the Federal Reserve positively impacting M&A activity and the broader U.S. economy. Despite increased interest among acquirers, transaction multiples declined in the last quarter, but recent trends suggest that the M&A market is likely to continue a gradual path toward recovery through the remainder of 2024 into 2025.

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

Sources: Pitchbook, FRED, US Bank, Insurtech, Citywire, and Colonnade research

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