

M&A Quarterly Update: 2022 Third Quarter



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Welcome to the M&A Quarterly Update for 2022. This Quarter Report analyzes data from the third quarter of 2022.

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

M&A Quarterly Activity (North America)

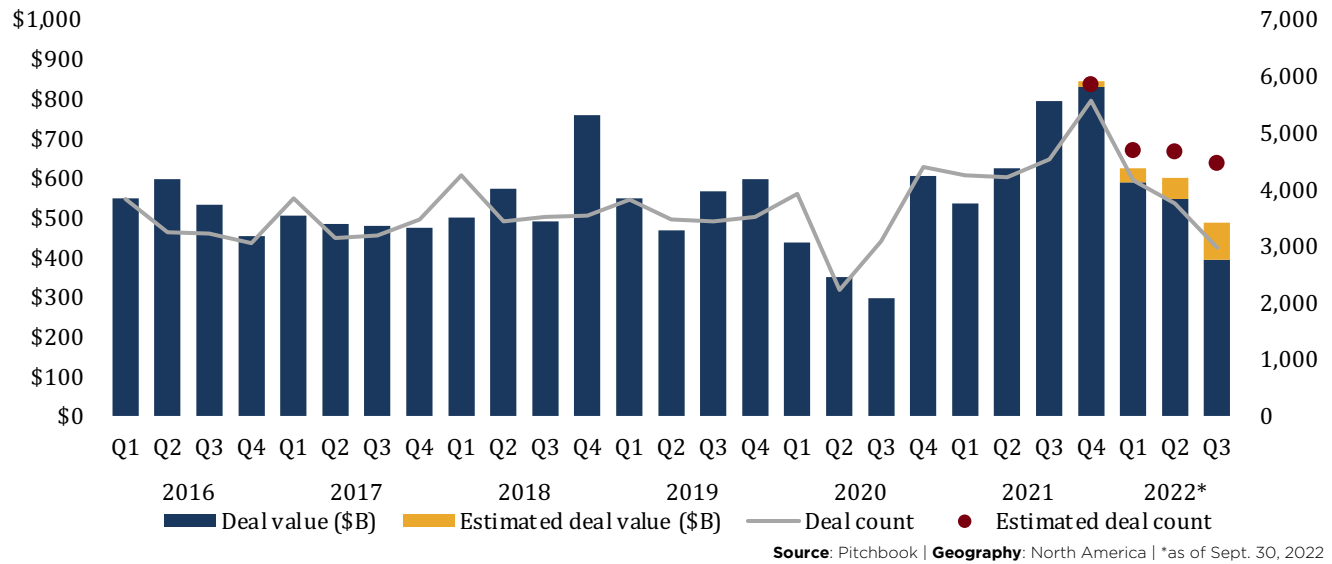
North American M&A activity slowed in the third quarter of 2022 amid rising interest rates, high inflation, and general economic uncertainty. Estimated deal count figures came in lower than the third quarter of 2021, and deal volume declined for the third consecutive quarter.

Using estimates, Q3/2022 realized 4,457 closed deals for an aggregate transaction value of almost \$488 billion.

The third quarter of 2022 predicts a 38% decrease in deal volume over Q3/2021 and a 2% decrease in aggregate transaction value in the same time period.

On a quarter-over-quarter basis, both estimated aggregate transaction value and deal volume declined.

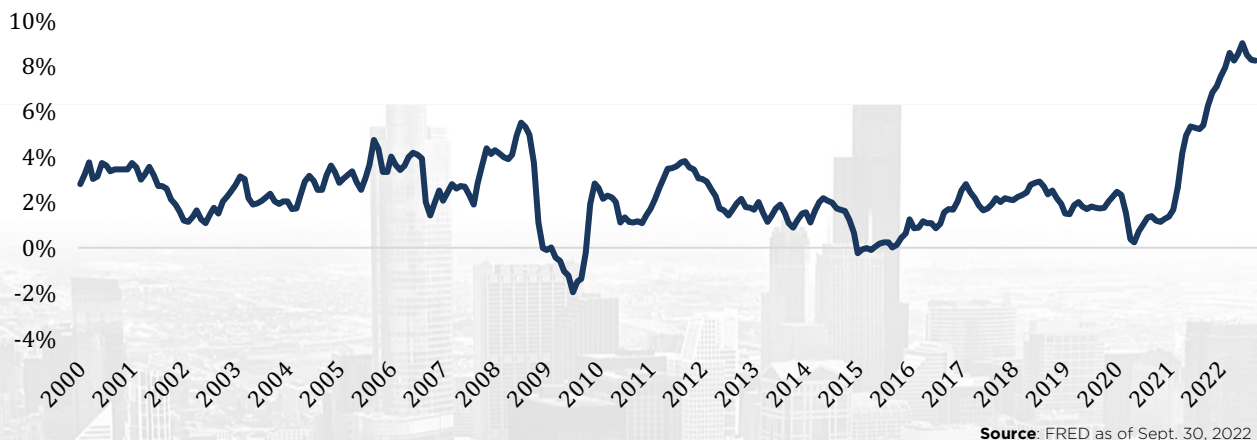
Quarterly North American M&A Activity (\$ in billions)



As interest rate increases drive up the cost of financing acquisitions, fears that the sharp rise in inflation could trigger a recession and the continued decline in public equity markets have caused some potential buyers to withdraw from the market. Dealmaking headwinds felt this quarter are expected to persist for the remainder of 2022 and into early 2023.

The following chart depicts the latest inflation statistics, which demonstrate the highest inflation rates the U.S. has seen in 40 years.

Rate of Inflation - Consumer Price Index

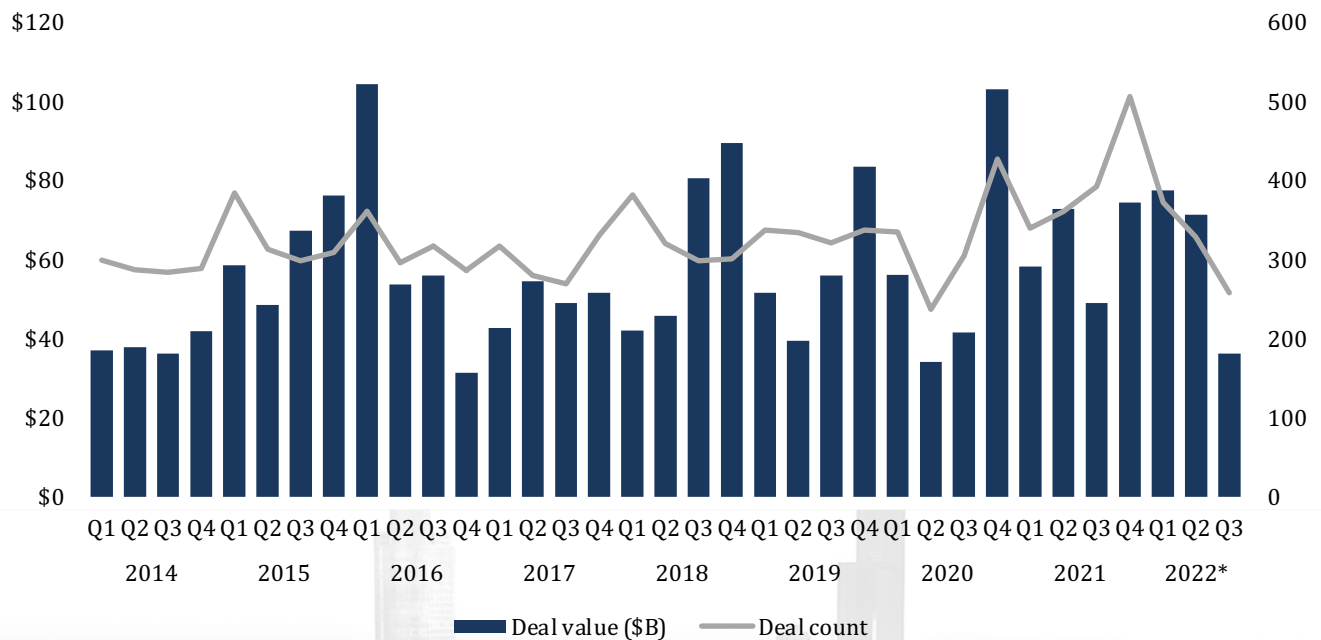


Financial Services M&A Quarterly Activity (North America)

Aggregate North America M&A deal value in the Financial Services sector in the third quarter of 2022 declined further. Effective capital deployment remains paramount amid macroeconomic challenges, and financial services companies are employing increasingly thorough and demanding diligence requirements to unlock maximum value per transaction.

Insurance transactions accounted for many of the third-quarter deals, driven by the continued consolidation of insurance agencies and brokerages. Overall, the focus on capital preservation is apparent as banks and other financial businesses face regulatory uncertainty and extended closing timelines.

Quarterly Financial Services M&A Activity (\$ in billions)

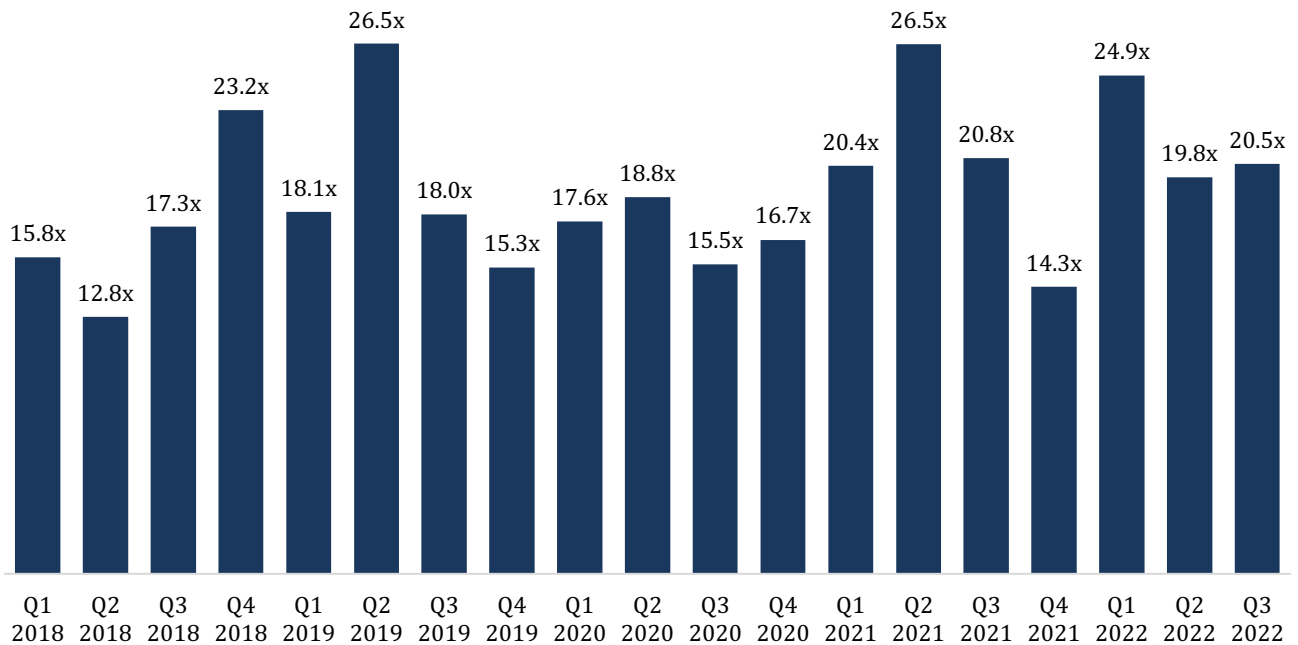


Source: Pitchbook | Geography: North America | *as of Sept. 30, 2022

Deal Multiples (U.S.)

Transaction multiples in the United States increased during the third quarter of 2022, following a decline in the second quarter of 2022.

The average Enterprise Value / EBITDA was 20.5x, slightly behind the third quarter of 2021 but ahead of the third quarter of 2020. Multiples in this range indicate we remain in a seller's market.

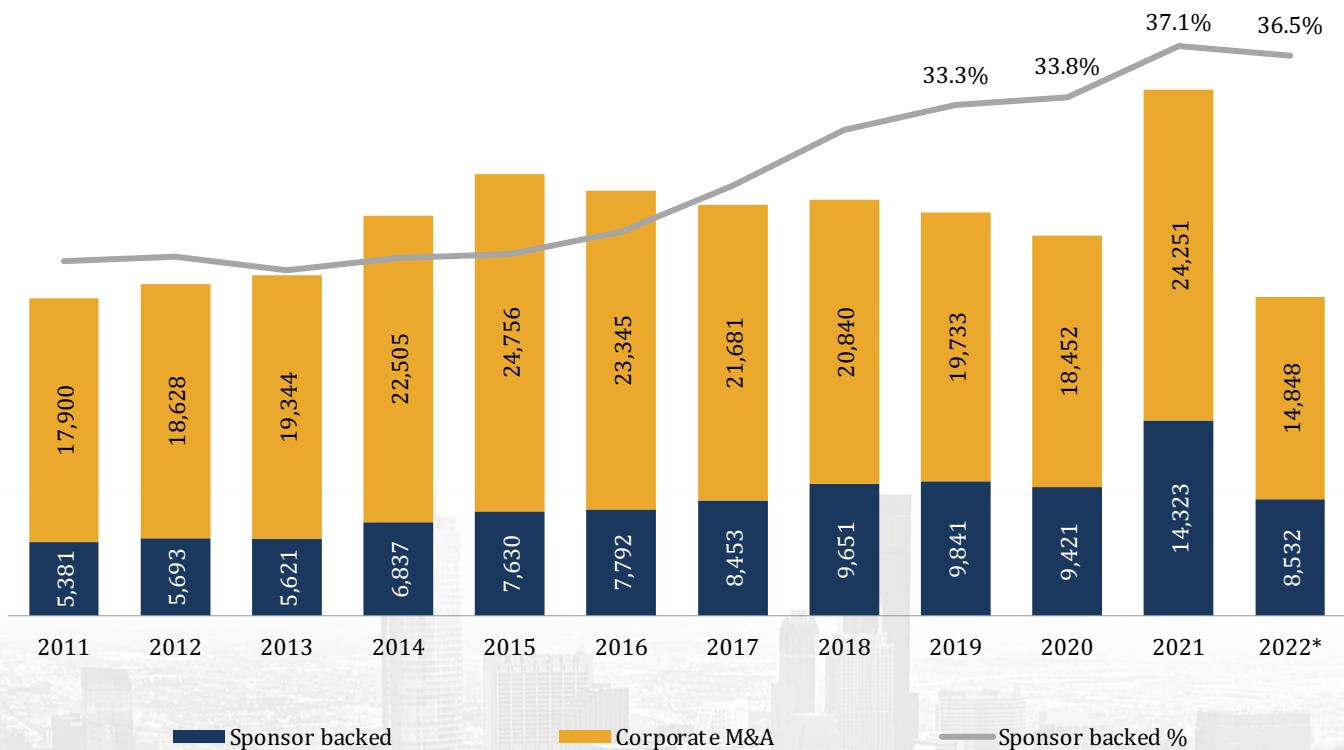


Sponsor vs. Corporate M&A (Global)

As rising interest rates make the cost of financing acquisitions more expensive, private equity firms shifted toward smaller deal sizes, with Q3/2022 deal volume declining by 20.4% year-over-year and deal count increasing by 3.7%. Private equity accounted for 37.3% of all transactions globally in the third quarter of 2022 (and 36.5% YTD), which remains significantly above the 22.1% of sponsor-backed deals for the same period in 2012.

Private equity fundraising in Q3/2022 was down from its high in Q1, but a significant amount of capital remains to be deployed, with dry powder estimated to be over \$1 trillion. As it becomes increasingly difficult to finance transactions, private equity firms continue to turn towards private debt funds and away from traditional bank loans for funding.

M&A Deal Activity by Acquirer Type



Source: Pitchbook | Geography: Global | *as of Sept. 30, 2022

Conclusion

M&A activity in the third quarter of 2022 slowed from its record levels in recent quarters. Global economic uncertainty driven by rising interest rates, high inflation, and volatility in the equity markets will continue to pose headwinds for the M&A landscape for the remaining months of 2022 and into early 2023. As the cost of capital rises, smaller deal sizes and alternative funding sources are becoming more popular as both sponsors and strategics search for new ways to create value.

Despite deal volume declining, there was enough liquidity among strategics, private equity firms, institutional investors, and SPACs to drive up transaction multiples slightly from last quarter. For more information about the capital under pressure in the SPAC buyer universe, please see [our latest SPAC Attack Quarterly Update](#).



If you would like to discuss M&A market conditions with Colonnade, please contact:



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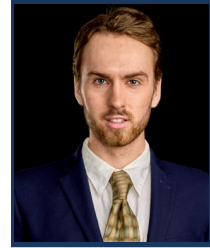
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This advertisement was prepared November 2022. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: SEC filings, regulatory filings, FRED, Pitchbook, and company presentations.

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