# M&A INSIGHT

## MERGERS, ACQUISITIONS, DIVESTITURES AND VALUATIONS FOR MIDDLE-MARKET COMPANIES

**IN THIS EDITION**



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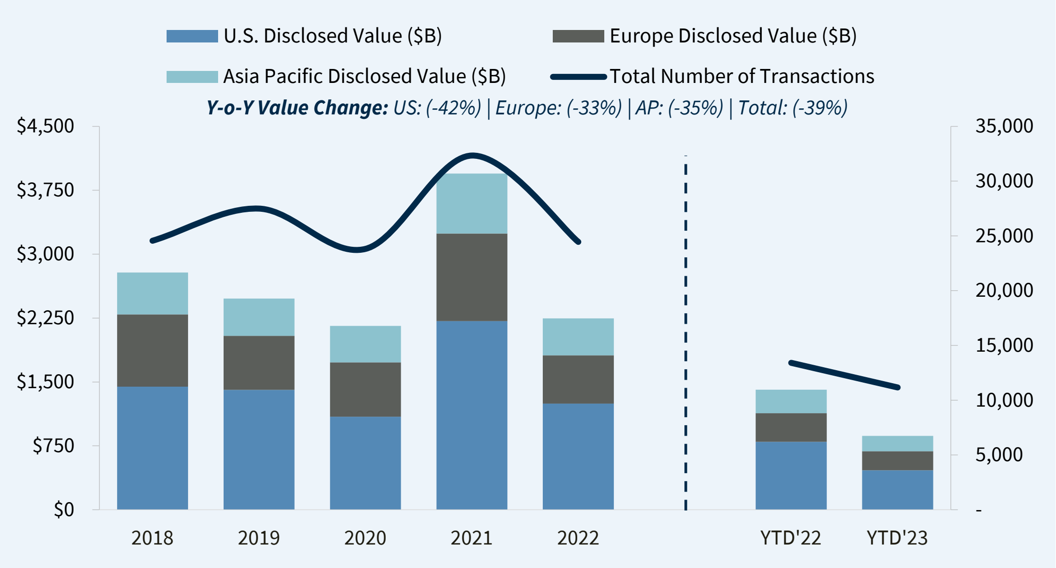
# Global M&A Market Commentary

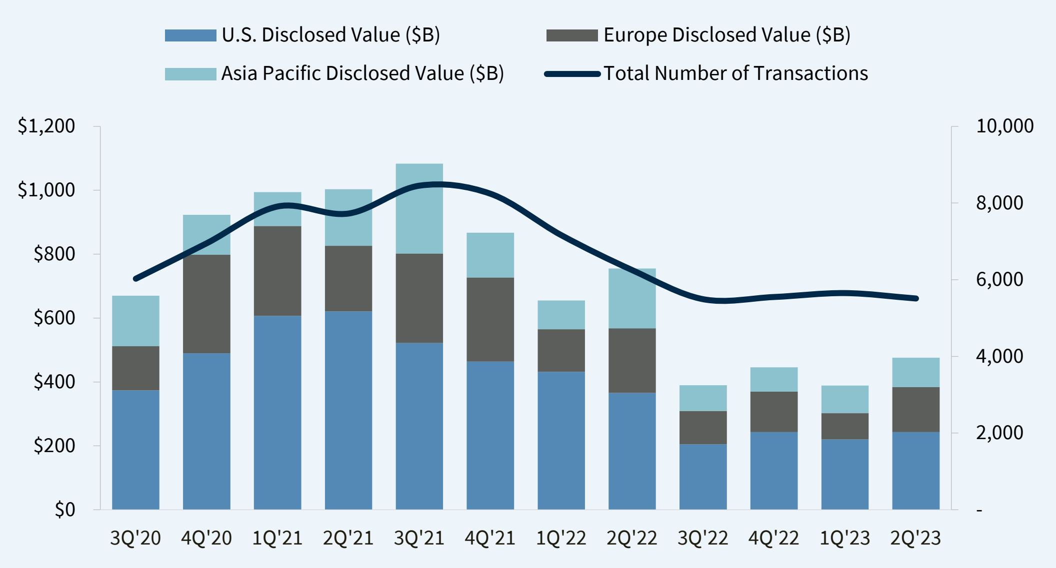
## Historical Annual M&A Activity

Total M&A deal volume in the first half of 2023 involving targets based in the U.S., Europe and Asia Pacific decreased by approximately 17% year-over-year ("Y-o-Y") [1]. Similarly, M&A deal value decreased approximately 39% in the first half of 2023 when compared to the first half of 2022[1]. The M&A market faced sustained headwinds in the second quarter of 2023 as dealmakers and corporations navigated challenging macroeconomic conditions. Elevated interest rates, continued economic uncertainty and market volatility have driven a cautious approach by both buyers and sellers. Other factors, such as increased cost of capital for corporate borrowers and a widening of spreads have been added difficulties to the broader M&A market[2].

## Historical Quarterly M&A Activity

Across the U.S., Europe and Asia Pacific, sequential quarter-over-quarter announced M&A deal value and volume increased by approximately 23% and decreased by approximately 2%, respectively, in the second quarter of 2023[1]. Although there was a modest sequential decline in quarterly volume, total deal value increased Q-o-Q as an uptick in the number of $1,000M+ transactions helped drive up average reported deal size. The European market experienced the largest increase in deal value sequentially, as consumer and corporate sentiment rebounded following recent stress on the banking sector and energy price inflation. Improved deal flow in the healthcare and technology sectors helped contribute to the quarter-over-quarter increase in deal value[2].

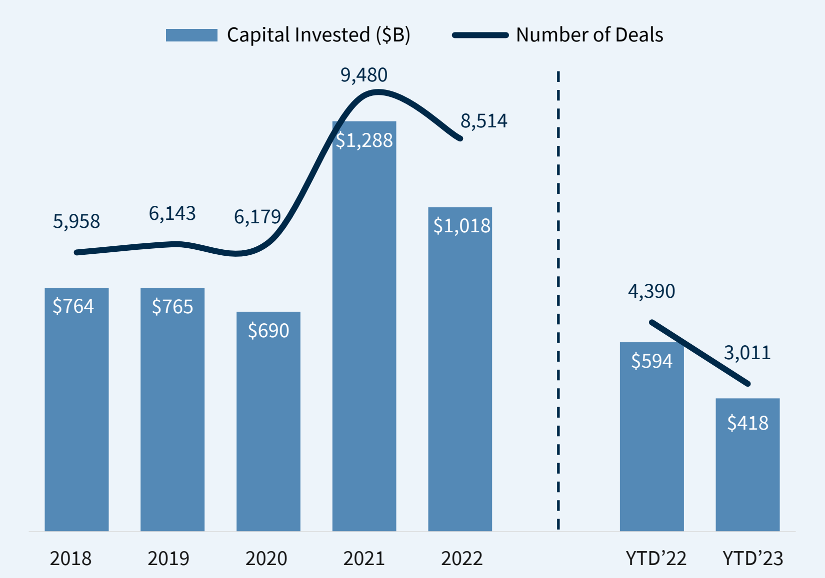



(1) FactSet; number of transactions includes those with undisclosed values; includes transactions with disclosed values over $10M. Data as of 06/30/2023.
(2) Reuters / S&P M&A Report.

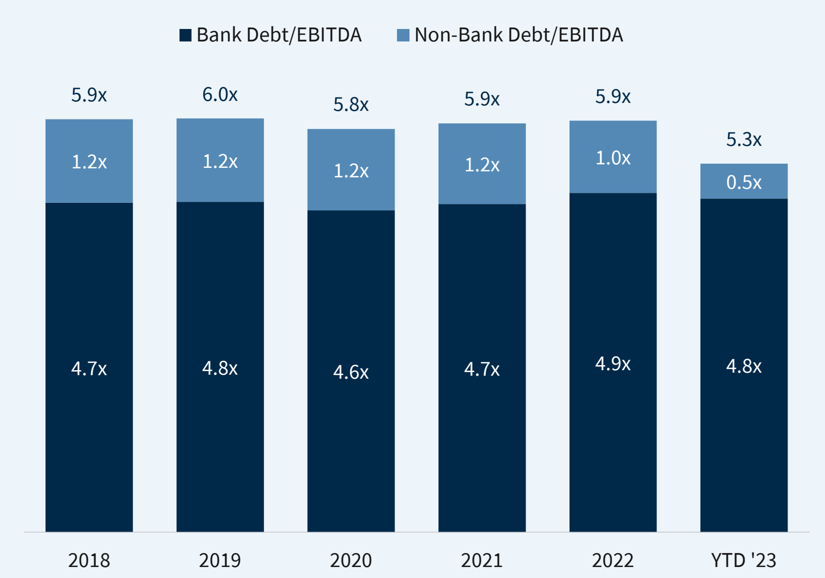
# U.S. Private Equity Commentary

## Deal Flow[1]




U.S. private equity deal value in the first half of 2023 decreased approximately 30% when compared to the same period in 2022. Similarly, when measured by deal volume, U.S. private equity saw a year-over-year decrease of approximately 31% during the first half of 2023. When comparing the second quarter of 2023 over a longer horizon, deal value and volume were approximately 15% and 23% lower than the average of quarterly periods since 2018. Compositionally, deal sizes from $100M – $500M comprised 34% of total deal volume in 2Q'23, representing a year-over-year increase of approximately 6%. When measured by deal value, the same size range saw a year-over-year increase of approximately 22%, representing approximately 59% of total deal value in the second quarter of 2023[1].

## Avg. Multiples of Large Corporate LBO Loans[2]

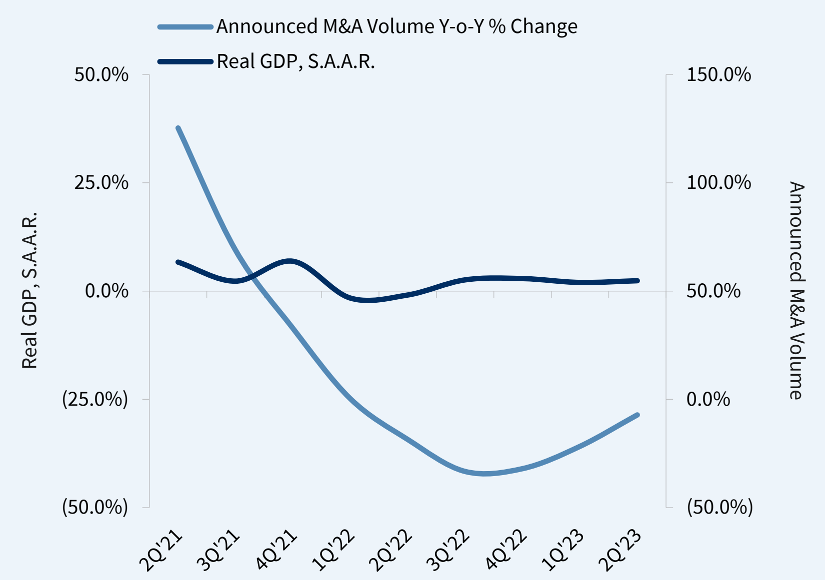



Average debt multiples of large corporate LBO loans in 1H'23 fell 0.6x below levels observed in 2022, as the US leveraged loan market has been impacted by tightening credit conditions, increasingly discerning lenders and record-high rate hikes from the Fed[3]. Smaller borrowers, especially those with weaker credit profiles, have been particularly challenged by current market conditions. The average multiple of Non-Bank Debt / EBITDA decreased as sponsors shift away from subordinated debt options, which typically command higher interest rate spreads. Direct "non-bank" lenders, such as private credit funds, provide relatively more flexibility than traditional banks, making them increasingly attractive sources of financing in M&A. Sponsors have responded to current credit markets by focusing on "amend-and-extend" and add-on transactions, which can be relatively easier to finance in the current environment than larger, new platform investments.

(1) PitchBook, *"US PE Breakdown"*. Data as of 06/30/2023.
(2) S&P LCD Report. Includes issuers with EBITDA greater than $50M. Data as of 06/30/2023.
(3) Pitchbook / S&P Leveraged Finance Report.

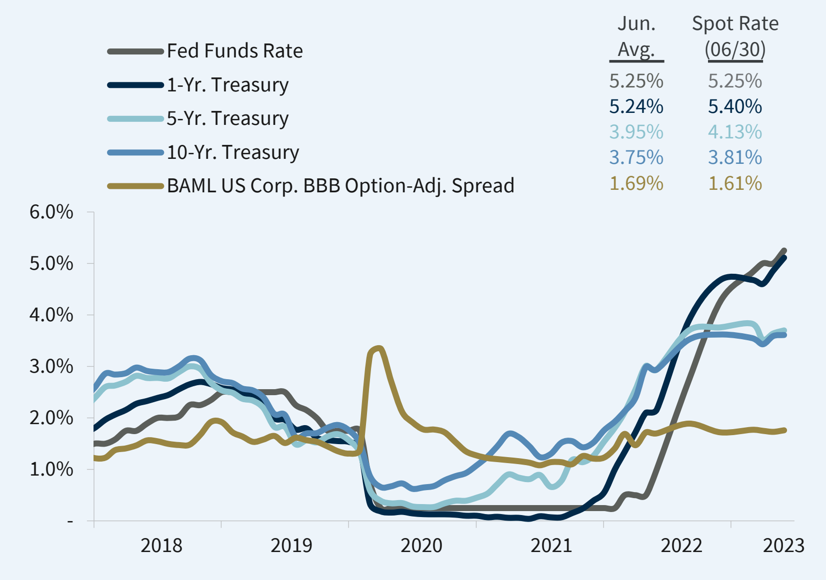
# U.S. Corporate Finance Commentary

## U.S. GDP Growth vs. M&A Activity[1][2][3]




U.S. real GDP growth, historically an indicator of M&A activity and a barometer for overall economic health, is estimated to have increased at an annualized pace of 2.4% in 2Q'23; comparatively, GDP increased 2.0% in 1Q'23. Second quarter 2023 GDP reflected increases in consumer spending, nonresidential fixed investment, state and local government spending, private inventory investment, and federal government spending. These positive drivers were partially offset by decreases in exports and residential fixed investment. Real personal spending, which accounts for approximately 70% of GDP, had a positive impact on growth, increasing 1.6% in the second quarter of 2023. The CPI for gross domestic purchases, a broader measure of inflation in the economy, increased 1.9% in the second quarter of 2023.

## U.S. Corporate Spreads[4]

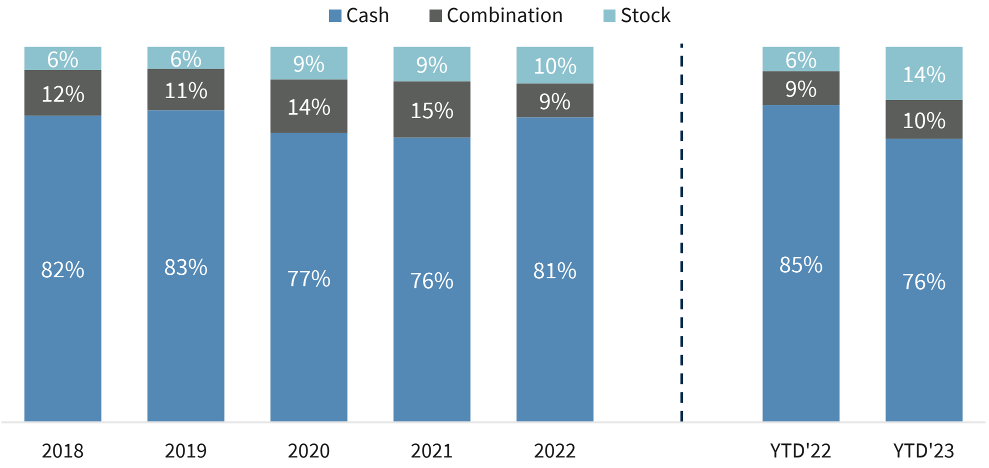



The Federal Reserve (the "Fed") raised rates by 25 bps in the second quarter, bringing the total fed funds rate to a targeted range of 500 – 525 bps, a level not been seen since 2001. The second quarter of 2023 showed some investors glimpses of recovery, as the Total Bond Index (representing U.S. government and investment-grade fixed income instruments) recorded a modest sequential decrease of approximately 0.9%. The Total Bond Index's stabilizing performance in Q2'23 is opposite the dire performance in 2022, in which it declined more than 13% Y-o-Y, the worst performance since 2008. The S&P rebounded in the first half of 2023, posting a gain of approximately 17%, after 2022 produced its worst year since 2008. The technology sector saw the greatest rebound in the first half of 2023, increasing by approximately 40% sequentially.

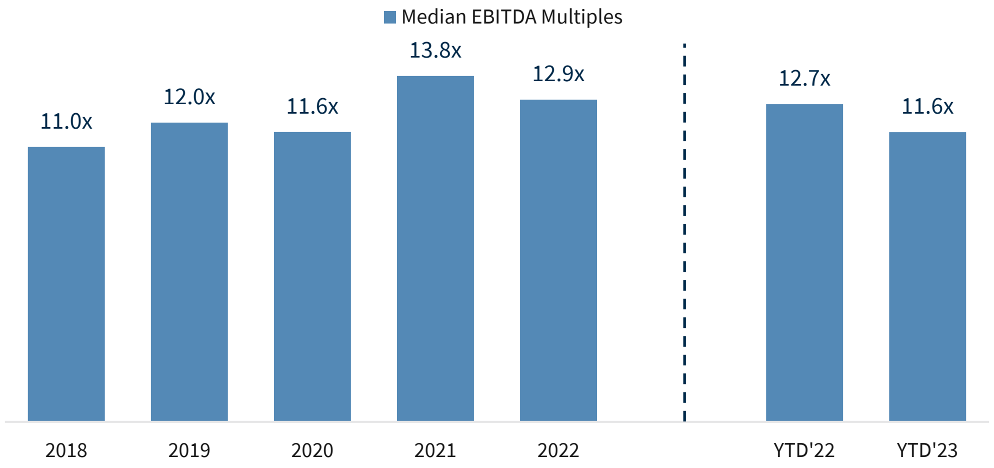
(1) U.S. Bureau of Economic Analysis. Updated as of latest available (07/27/2023).
(2) FactSet.
(3) GDP growth based on 2012 dollars.
(4) Federal Reserve Economic Data. Data represents the monthly average.

# M&A Market Statistics

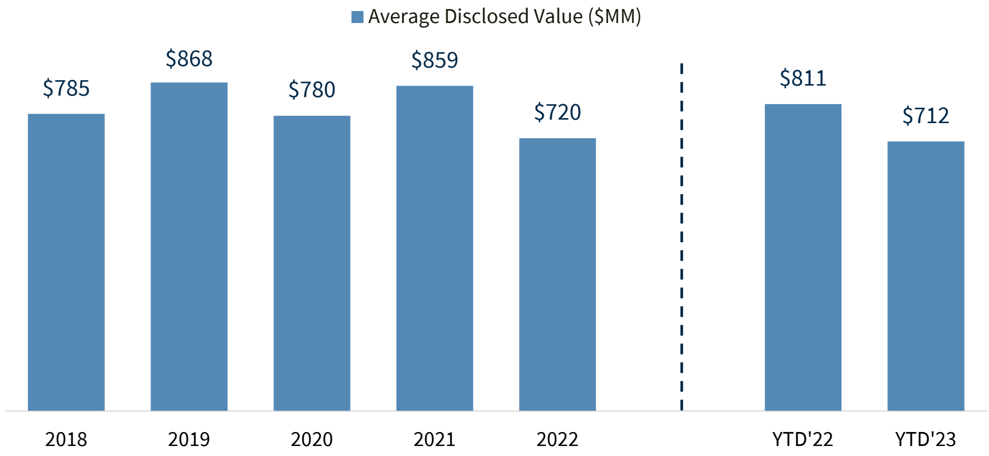
## Consideration Offered in U.S. M&A Transactions(1)(2)



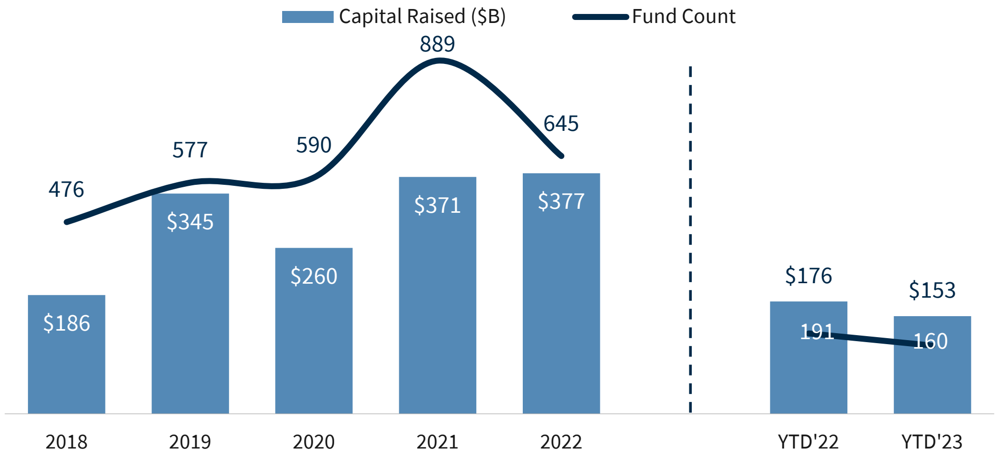

## Median EBITDA Multiples in U.S. M&A Transactions(1)(2)




## Average Size of U.S. M&A Transactions(1)(2)



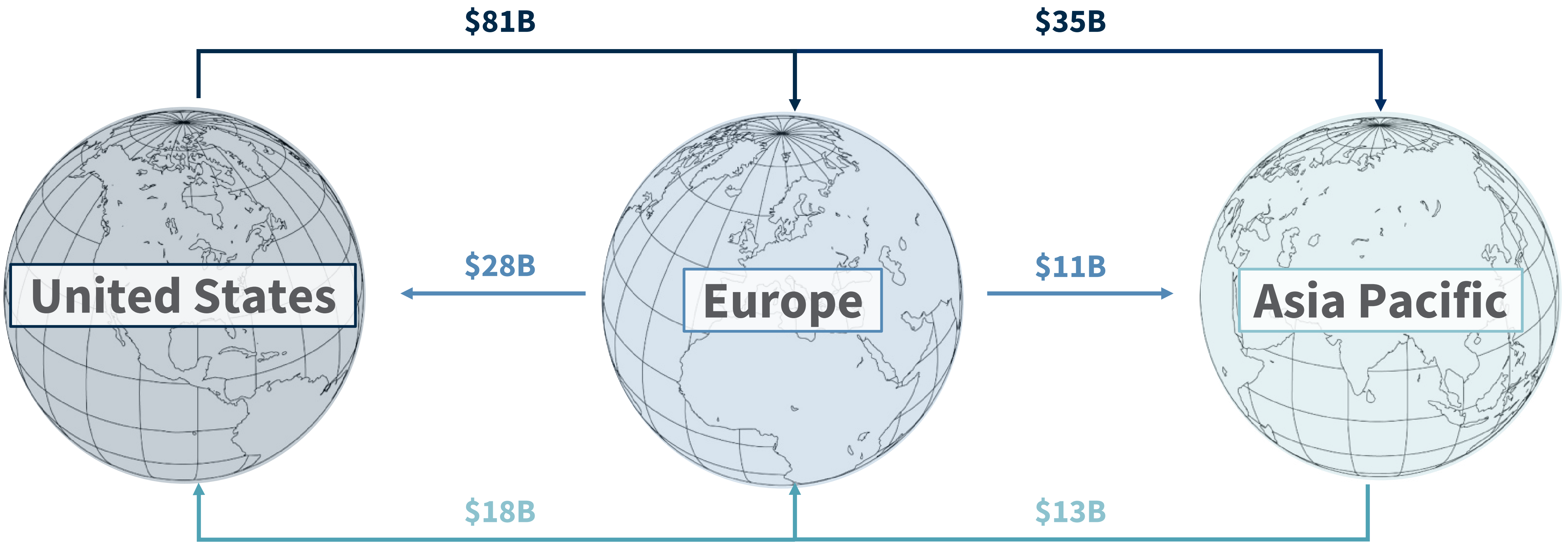

## U.S. Private Equity Fundraising(3)




(1) FactSet; data as of 06/30/2023.
(2) Includes transactions with disclosed values over $10M.
(3) PitchBook, *"US PE Breakdown"*. Data as of 06/30/2023.

# M&A Market Statistics

## YTD’23 Cross Border M&A Deal Activity(1)




(1) Source: FactSet; number of transactions includes those with undisclosed values; Includes transactions with disclosed values over $10M. Data from 01/01/2023 – 06/30/2023.

# Economic Commentary

Eugenio J. Alemán, Ph.D.
August 18th, 2023
Chief Economist, Private Client Group

## Student loan repayment: What should we expect?

We have heard lots of commentary on the student loan repayment issues facing almost 44.5 million Americans. Some of these commentaries are correct but there are others that miss the mark. Let's try to clarify some of these issues in order to make sense of the potential severity of the issues confronting individuals who hold student loan debt as well as its potential impact on US economic activity. In general, if the economy is growing and there is full employment, as it is today, there should not be an issue with student loan debt holders being able to afford their debt payments. There may be some exceptions with predatory student loan lending by private firms, but those cases are a minority of student loans.

The Trump administration postponed student loan debt repayment at the start of the COVID-19 pandemic and the postponement has been extended eight times since. Although there were very good reasons for the original postponement as well as for several of the extensions, those reasons cannot be considered necessary today. Furthermore, efforts have continued to improve the ability of individuals to pay student loan debts after the US Supreme Court concluded that the Biden Administration went too far in promising to forgive student debt loans. The Administration has proposed some income-based alternatives for student loan repayment that will benefit some borrowers, perhaps in the lower echelons of income, but student loan repayment is scheduled to start again in October of 2023.

## Potential effects on economic activity

Once again, there are no good arguments today to keep postponing the start of the repayment of student loans as economic conditions have remained positive, especially because the rate of unemployment has remained at historically low levels since the end of the COVID-19 pandemic. This means that individuals who have student loans will have to add student loan payments to their regular scheduled monthly payments and thus, will have to give up consuming other goods instead. Typically, we would expect that those with student loans will have to give up some discretionary consumption in order to be able to pay back their student loans.

While some individuals may face difficulties adjusting consumption to be able to pay those loans, the overall effects on personal consumption expenditures and for the US economy should be relatively small. Our estimate below assumes the unlikely worst-case scenario where, despite the one-year leniency program, every one of the 27.4 million borrowers will start to repay their loans at $200/month, and the impact that this adjustment is going to have on personal consumption expenditures, and ultimately on GDP. Additionally, we created two other scenarios, where all borrowers pay $350 and $500 per month, and calculated the impact on GDP.

Our estimates show that even in the unlikely worst-case scenario, in which borrowers' monthly payments are more than twice our base case estimate, and all borrowers start paying the full amount every month, the impact on GDP would be a reduction in GDP growth of 0.2 percentage points in 2023, and 0.6 percentage points in 2024.

## Summary of the week

**Retail Sales:** The July retail and food services report continued to show a consumer that remains engaged in the economy even though some particular sectors showed slight weakness during the month. Control group sales were stronger than expected in July. Total retail and food services sales increased a more than expected 0.7% in July while retail sales increased 0.6%, according to the US Census Bureau. Excluding motor vehicles and parts, sales increased by 1.0% while if we exclude sales at gasoline stations, sales increased 0.8%.

**Import Prices:** Import and export prices paused this year's trend of monthly decreases. Both indices increased in July, which along with stronger-than-expected retail sales data is not good news for the Federal Reserve and its efforts to bring inflation down. Import prices increased a more than expected 0.4% (vs. 0.2% FactSet estimate) in July after decreasing 0.1% in June, according to the US Bureau of Labor Statistics. This is the largest increase since May 2022.

**NAHB Housing Market Index:** The NAHB Housing Market Index declined for the first time this year, with all three of its components weakening. Most importantly, the two forward-looking indicators—sales and traffic of prospective buyers— declined, suggesting that mortgage rates holding above 7% continue to take a toll on perspective buyers. This weakness suggests that the expectation that mortgage rates are unlikely to wane in the near future. The NAHB Housing Market Index published by the National Association of Home Builders (NAHB) decreased to 50, much lower than the expected level estimated by the FactSet consensus of 56. This is the first monthly decline after seven consecutive monthly increases in the Index.

Source: Raymond James Weekly Economics, *"Thoughts of the Week"*. Link.

# Raymond James

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# Raymond James Recent Advisory Transactions (04/01/23 – 06/30/23)

June 2023
TERRA PROPERTY TRUST
Has entered into a definitive agreement to merge with
Western Asset Mortgage Capital Corp.

June 2023
Retirement & Benefits Partners
A portfolio company of
KOHLBERG & COMPANY
Has been acquired by
VISTRIA

June 2023
GENERAL ATLANTIC
Has made a strategic investment in
FINTECH
A portfolio company of
TA ASSOCIATES

June 2023
3SI
A portfolio company of
LLR Partners
Has merged with
WREN SOLUTIONS

June 2023
imagen
Has been acquired by
THOMSON REUTERS

June 2023
COMVEST PARTNERS
Has acquired
Your Behavioral Health

June 2023
infobric
A portfolio company of
SUMMAEQUITY
Has entered into a definitive agreement to be acquired by
STIRLING SQUARE CAPITAL PARTNERS

June 2023
GWTT
A portfolio company of
HUDSON FERRY CAPITAL
Has been acquired by
Ember Infrastructure

June 2023
AMERICAN NATIONAL
An operating company of
Brookfield
Has entered into a definitive agreement to sell its MGU/Stop-Loss business to
CORE SPECIALTY

June 2023
AMERICAN NATIONAL
An operating company of
Brookfield
Has agreed to a sale of its Medicare Supplement business via reinsurance
Swiss Re

June 2023
EARTHSTONE Energy, Inc.
Has entered into a definitive agreement to acquire
NOVO
Conflicts Committee Advisory and Fairness Opinion

June 2023
TREATMENT TECHNOLOGIES
A subsidiary of
SHELTON ASSOCIATES
Has been acquired by
INFRAMARK
A portfolio company of
NMC New Mountain Capital LLC

June 2023
tripleseat
A portfolio company of
VISTA
LEVEL EQUITY
Has received a growth investment from
GENERAL ATLANTIC

June 2023
BESTPASS
A portfolio company of
SUSQUEHANNA GROWTH EQUITY
Has received an investment from
INSIGHT PARTNERS

May 2023
MERCER ADVISORS
A portfolio company of
GENSTAR
OAK HILL CAPITAL
Has entered into a definitive agreement to receive an equity investment from
ALTAS

May 2023
Secure Innovations
Has been acquired by
iNovex
A portfolio company of
ENLIGHTENMENT CAPITAL

May 2023
FULLSTEAM
Has received an investment from
AQUILINE CAPITAL PARTNERS LLC
ADIA

May 2023
ADAMIS Pharmaceuticals Corporation
Has merged with
DMK PHARMACEUTICALS

May 2023
WILLIAMS COUNTRY SAUSAGE
AUTHENTIC COUNTRY GOODNESS
Has been acquired by
Tyson

May 2023
Kabal
A portfolio company of
Norvestor
Has received a significant growth investment from
INSIGHT PARTNERS

May 2023
INNOPLEX
Has been acquired by
iNovex
A portfolio company of
ENLIGHTENMENT CAPITAL

Past performance is not indicative of future results.

# Raymond James Recent Advisory Transactions (04/01/23 – 06/30/23)

**May 2023**
LEADEDGE CAPITAL
Has acquired
GrowthZone — smarter association software
A portfolio company of
GREENRIDGE GROWTH PARTNERS

**May 2023**
ABSOLUTE
Has entered into a definitive agreement to be acquired by
CROSSPOINT CAPITAL
Fairness Opinion

**May 2023**
Uwill
Has received a growth investment from
EGP EDUCATION GROWTH PARTNERS

**May 2023**
THE SWITCH
Has been acquired by
TATA COMMUNICATIONS

**April 2023**
NIELSEN BioSciences
Has entered into an exclusive licensing agreement with
maruho

**April 2023**
Vetnique labs
Has been acquired by
GRYPHON INVESTORS

**April 2023**
Big Red Stores
Has been acquired by
CIRCLE K
A portfolio company of
Couche-Tard

**April 2023**
Qognify
A portfolio company of
Battery
Has been acquired by
HEXAGON

**April 2023**
CNC FLOW CONTROL
Advised the spin-off from
ERIKS
A portfolio company of
LKCM HEADWATER INVESTMENTS

**April 2023**
RHINO TOOL HOUSE
A portfolio company of
WINCOVE
Has been acquired by
Blue Sea Capital

**April 2023**
maxims
Has been acquired by
total specific solutions

Past performance is not indicative of future results.

# Raymond James Recent Capital Market Transactions (04/01/23 – 06/30/23)

| Date | Company | Amount | Offering | Role |
|---|---|---|---|---|
| June 2023 | Kodiak Gas Services, LLC | $294,400,000 | Initial Public Offering | Co-Manager |
| June 2023 | Cerence | $210,000,000 | Convertible Offering | Co-Manager |
| June 2023 | World Kinect | $350,000,000 | Convertible Offering | Passive Bookrunner |
| June 2023 | RadNet | $259,159,688 | Follow-on Offering | Active Bookrunner |
| June 2023 | Casella | $517,499,951 | Follow-on Offering | Left Bookrunner |
| June 2023 | Mobileye | $1,617,000,000 | Follow-on Offering | Co-Manager |
| June 2023 | Skyward Specialty Insurance | $101,832,500 | Follow-on Offering | Passive Bookrunner |
| June 2023 | Ryman Hospitality Properties, Inc. | $412,864,375 | Follow-on Offering | Co-Manager |
| May 2023 | Vivid Seats | $147,200,000 | Follow-on Offering | Co-Manager |
| May 2023 | Intapp | $262,343,750 | Follow-on Offering | Passive Bookrunner |
| May 2023 | Everest | $1,490,400,000 | Follow-on Offering | Co-Manager |
| May 2023 | Maxeon | $241,178,000 | Follow-on Offering | Co-Manager |
| May 2023 | Tecnoglass | $98,900,000 | Follow-on Offering | Active Bookrunner |
| May 2023 | Sixth Street Specialty Lending | $91,080,000 | Follow-on Offering | Passive Bookrunner |
| May 2023 | IAS | $172,500,000 | Follow-on Offering | Co-Manager |
| April 2023 | InflaRx | $45,999,998 | Follow-on Offering | Left Bookrunner |

Past performance is not indicative of future results.

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