CREWE CAPITAL

MERGERS & ACQUISITIONS MARKET UPDATE

Q3 2022

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Market Update

Q3 2022

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Market Overview

Throughout Q3 major stock indexes continued their descent. Ongoing fears of inflation coupled with increasing rate hikes from the Federal Reserve have continued to diminish consumer sentiment and have kept investors on edge.

Inflationary pressures prompted central banks, including the U.S. Federal Reserve, to continue to tighten monetary policy in the third quarter and push nominal and real (inflation-adjusted) bond yields to their highest levels in more than a decade. Market volatility remained elevated due to high inflation risks, slower access to liquidity, waning growth momentum, and greater uncertainty regarding future monetary policy.

U.S. GDP grew at an annual rate of 2.6% in Q3, temporarily putting away fears the economy would continue its decline. Although inflation has remained high, the most recent CPI reading of 7.7% YoY in October 2022 (down from 8.2% in September) has reassured investors the Fed's open market policies are beginning to tame rising prices.

The S&P 500 index suffered continuous losses in Q3, dropping 5.3%, marking the second consecutive quarter of a bear market. The market has remained on track for the poorest yearly showing since 2008. Consumers have continued to decrease spending as the Federal Reserve elected to raise interest rates by another 75 basis points in both July and September of this year.

Supply chain issues continued to persist into Q3 due to high consumer demand, effecting essential sectors such as the semiconductor and other chip production industries. Although there have been signs of improvement, other factors like labor shortages, production constraints, and shipping delays continue to put stress on global economic growth and stability.

Although remaining active, M&A activity continued to slow in Q3. Private equity and venture capital firms still have significant amounts of dry powder remaining from a year of successful fundraising in 2021. Multiples have remained strong, despite deal volume being down, and are primarily being driven by highly selective, high-quality transactions.

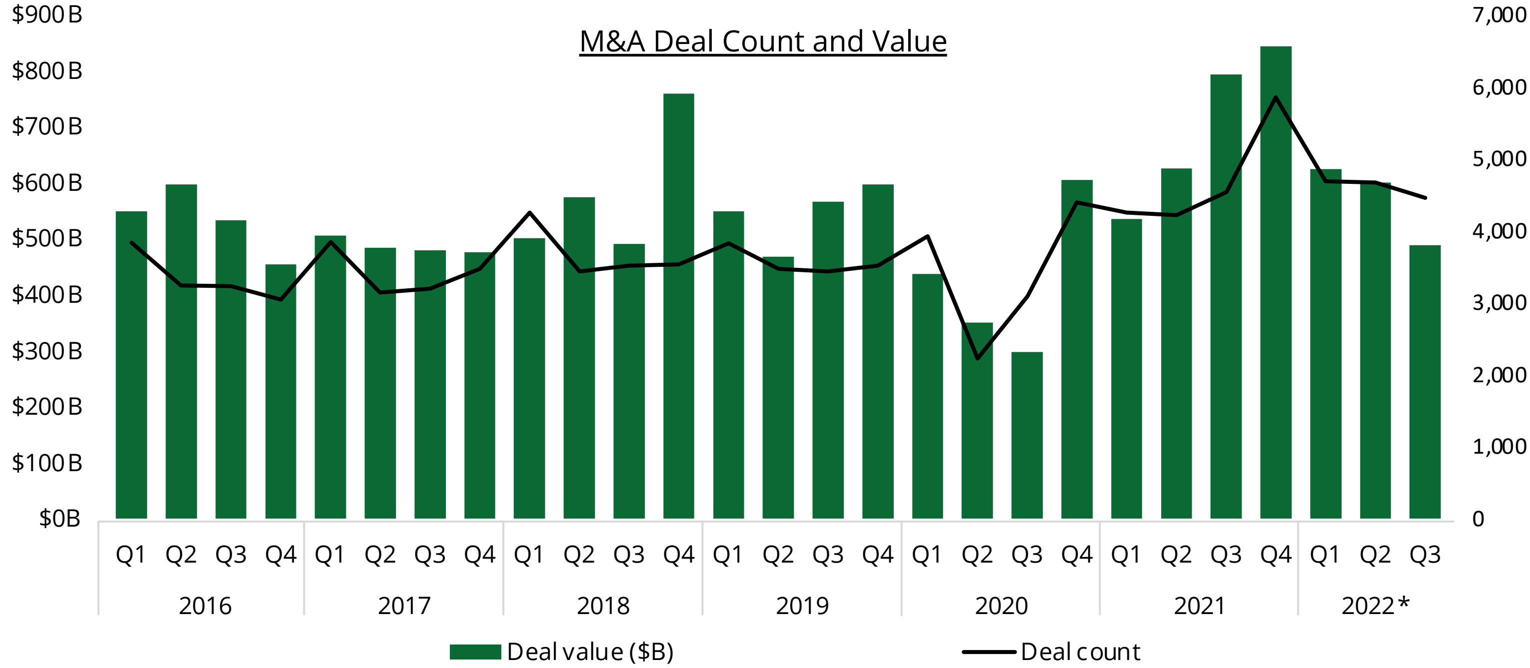
IPO activity has slowed to nearly a full stop in conjunction with the economy, illustrated by global IPO volume decreasing 44% YoY. Despite this significant decrease, it is pertinent to note that 2021 was a record-breaking year for IPOs and SPACs and was unlikely to be matched by 2022 in terms of deal activity and valuations.

Moving forward, private investors are still sitting on over $1.1 trillion of dry powder, and although we have seen a decrease in economic activity in 2022, leading to lower valuations, there is still considerable demand for M&A investments.

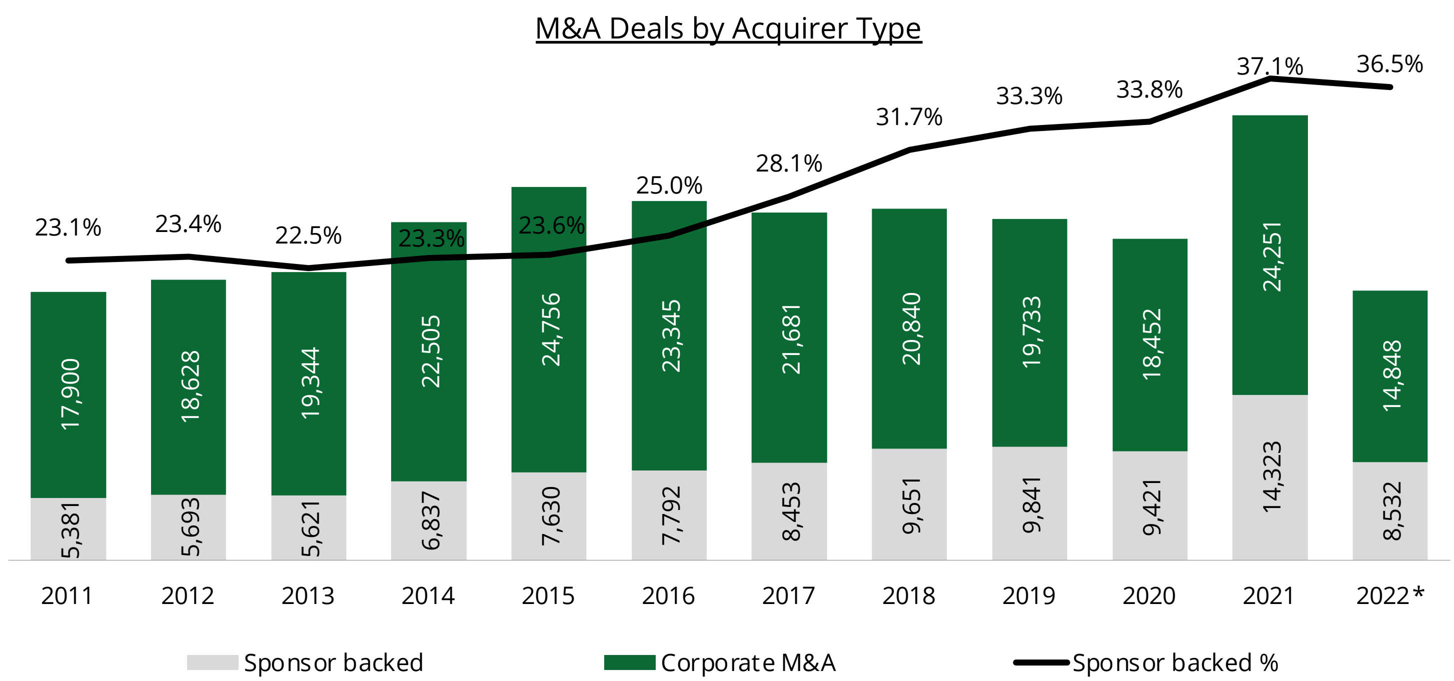
Source: PitchBook, Seeking Alpha, CPI, The Hill

M&A Activity

M&A activity has continued to slow in Q3 2022. Although overall activity is down, the market is still on track to surpass the pace of deals set prior to the COVID-19 pandemic. Despite two consecutive 75 basis point rate hikes, deal count is nearly a third higher than the quarterly average for 2015-2019. Private equity funds are still well-equipped with significant amounts of dry powder to execute deals and are not shying away from opportunities.



Private equity firms are equipped with over $1.1 trillion of dry powder to execute deals. Large businesses with impressive balance sheets are also looking to make strategic acquisitions in a variety of verticals. Looking forward, we anticipate inflation and economic uncertainty to continue to exert downward pressure on the M&A market during Q4 2022, yielding similar results to Q3.



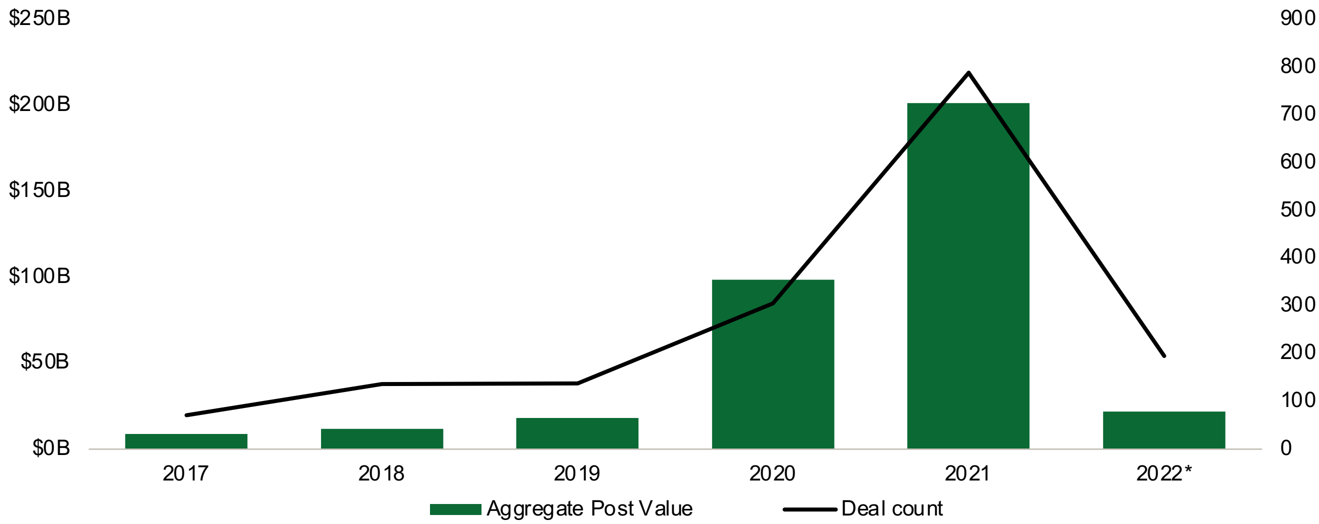
*Values through 9/30/2022

Source: PitchBook, PwC, JP Morgan

IPO Activity

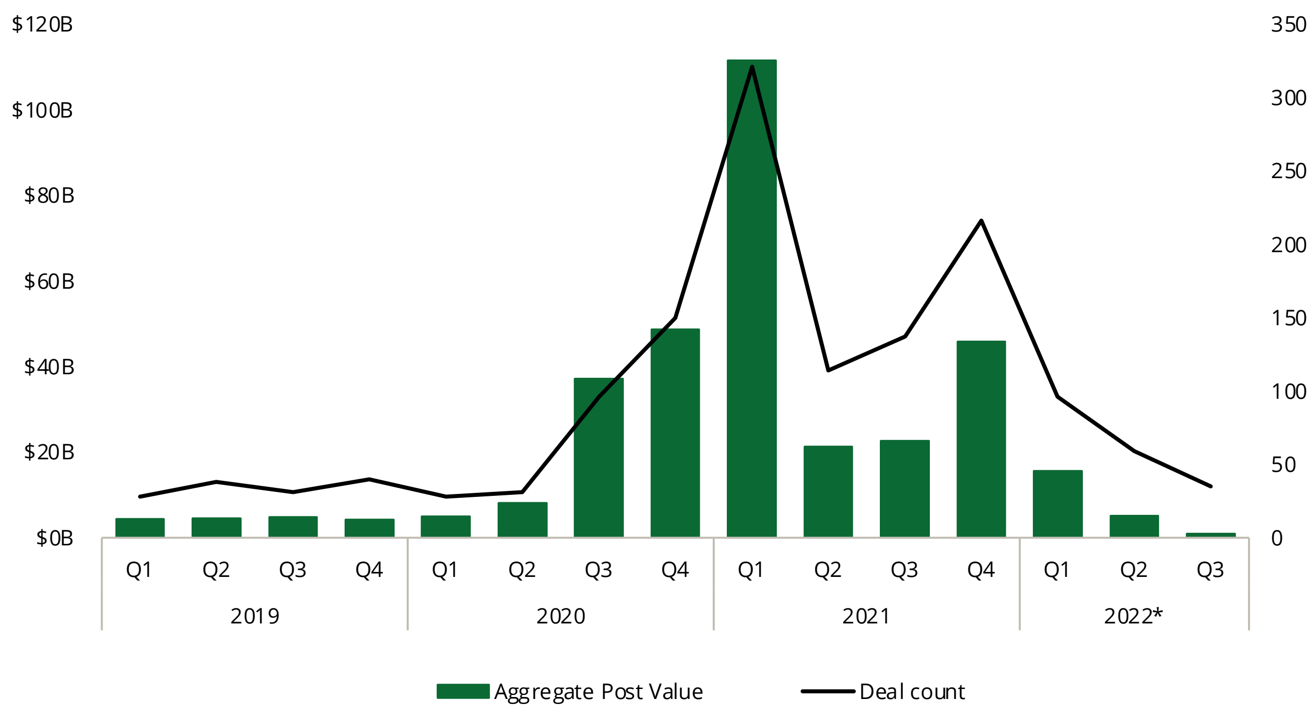
Due to macroeconomic problems causing high volatility in public markets, Q3 2022 has seen a measurable slowdown in IPO deal activity. Companies looking to go public have been hesitant to issue equity with depressed valuations and poor post-IPO performance. As a result, Q3 2022 global IPO volume fell 44% and IPO proceeds fell by 57% year-over-year.

Global IPO Activity



SPAC IPOs have slowed significantly through Q3 2022. Due to current capital market conditions and poor performance of recently closed SPAC mergers, the pace of new SPAC transactions has been negatively impacted. Public listings have been almost completely shut down due to rising interest rates. SPACs were arguably the largest phenomenon of the public markets in 2021, but they have nearly come to a full stop since the recent correction in asset prices.

Number of U.S. SPACs and Deal Volume

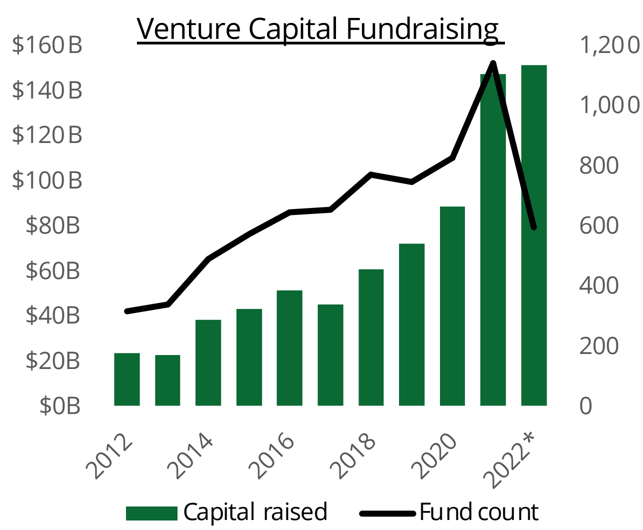


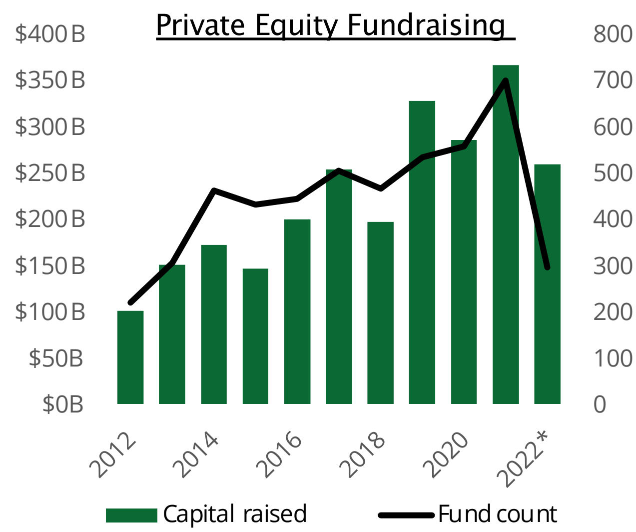
*Values through 9/30/2022

Source: PitchBook, Capital IQ, EY

Fundraising

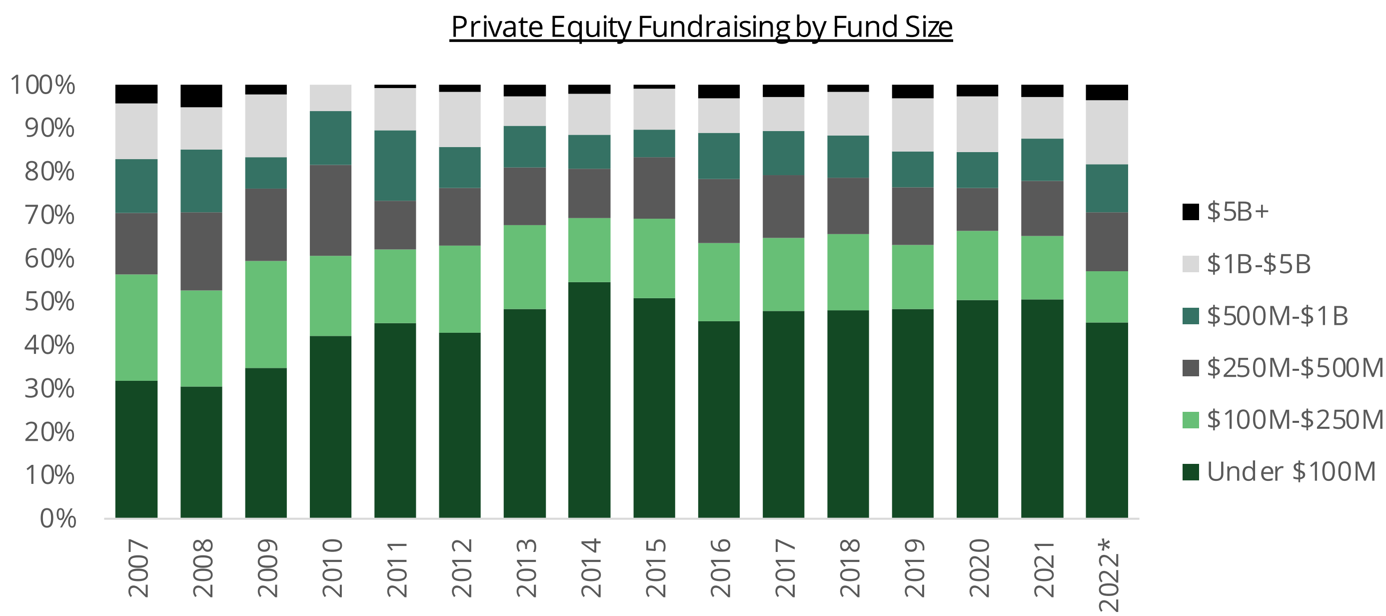
Through Q3 2022, $150.9 billion of capital was raised across venture capital, exceeding 2021's total VC fundraising. High fund-raising amounts through current market volatility is centered on last year's momentum as many funds were already in discussion, and many investors are seeking to maintain relationships and access to future investment pools. Funds led by established managers account for 86.7% of total invested capital for the year. In the coming years, these funds are expected to hold higher concentrations of committed capital, investing primarily in more traditional stages of venture.





Private Equity fundraising has slowed gradually throughout the year yet remained on pace with 2021. Due to worsening down-market outlooks, most PE firms have already hit their allocation targets for the year and intend to return deployment rates to sustainable pre-2021 levels into 2023.

Mega funds in Q3 2022 make up 53.1% of the total PE fundraising dollars in 2022. As competition for capital rises, mega funds tend to fare better in fundraising. Smaller funds have limited access to new capital, slowing deployment of dry powder.



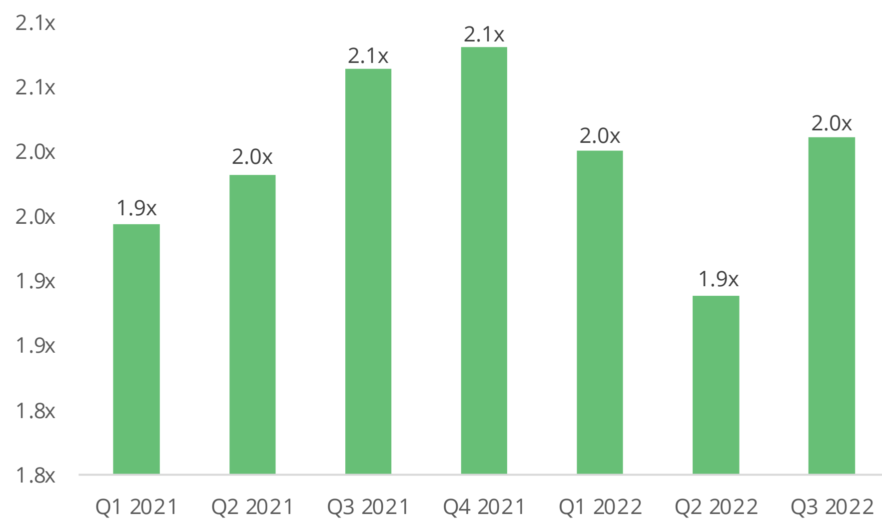
*Values through 9/30/2022

Source: PitchBook, Capital IQ, EY, CB Insights

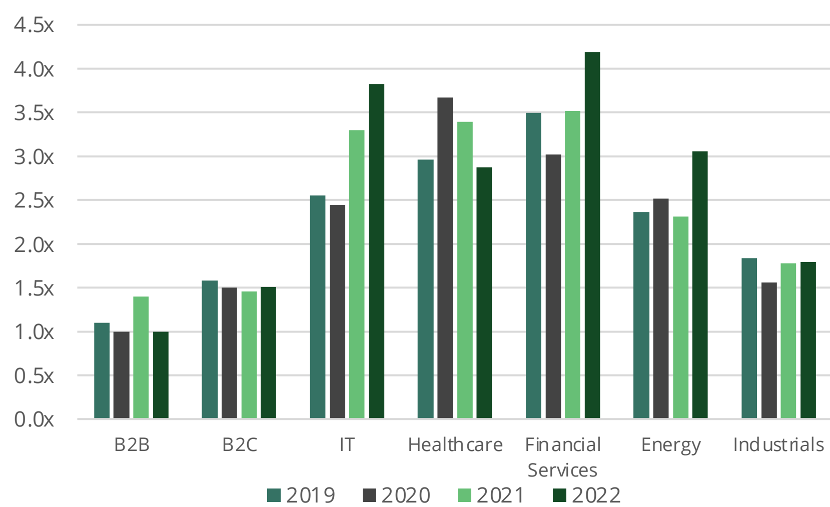
Multiples

Although fears of an oncoming recession and subsequent decreased multiples have been in the economic conversation for most of the year, there continues to be healthy M&A activity. While M&A deal flow has proven to be constant, valuation multiples have come down to pre 2021 heights. The most notable of these trends is highlighted in the Information Technology sector, but it can be observed in every industry.

EV/Revenue Multiples for all M&A

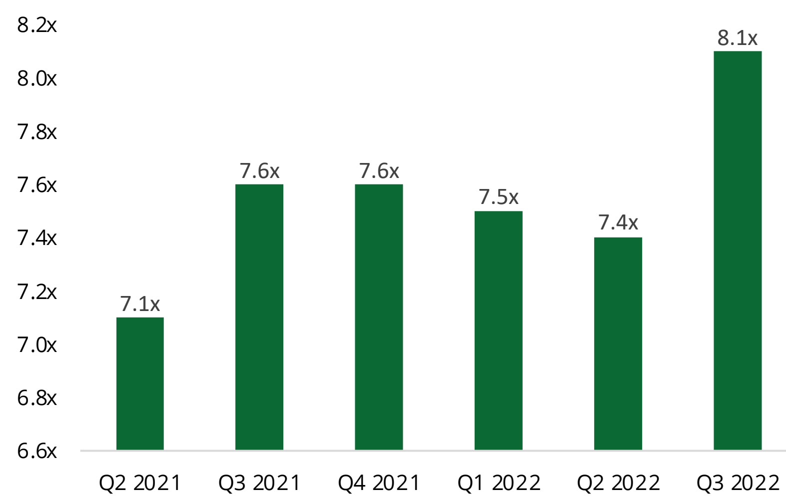


EV/Revenue By Industry



The largest increase in EV/Revenue transaction multiples since 2021 occurred in the energy industry. The ongoing energy crisis has continued to fuel investment in the energy sector, increasing multiples by 32.2%. The B2B services industry has seen the largest decline (-28.6%) since last year. Record layoffs this quarter have led to a decline in attractiveness for businesses operating in the B2B market.

Average TEV/EBITDA Multiples

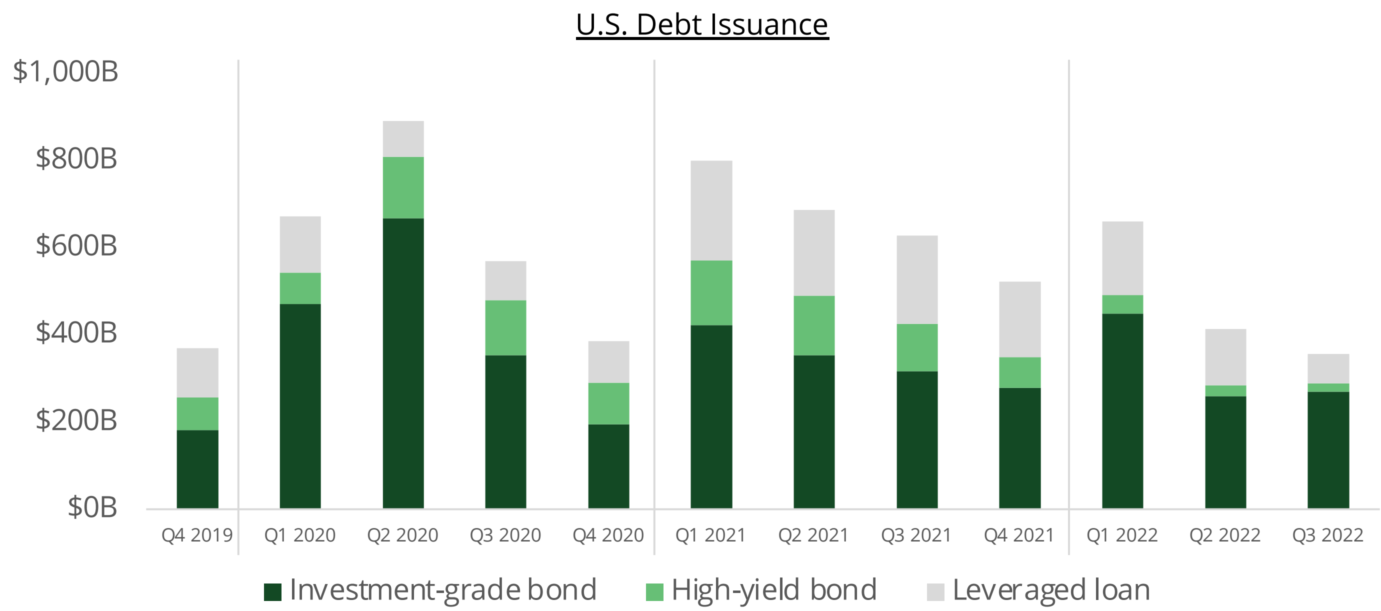


Total Enterprise Valuation (TEV) multiples grew to 8.1x TTM adjusted EBITDA in Q3 2022 from 7.4x in the previous quarter. This marked the first quarter of average multiples greater than 8.0x in over 2 years. Although there has been ongoing discussions about a looming recession, valuations continue to remain high. While deal volume has been leaner, multiples grew as buyers looked for stronger companies and were willing to pay more for consistent cash flows and more positive growth outlooks.

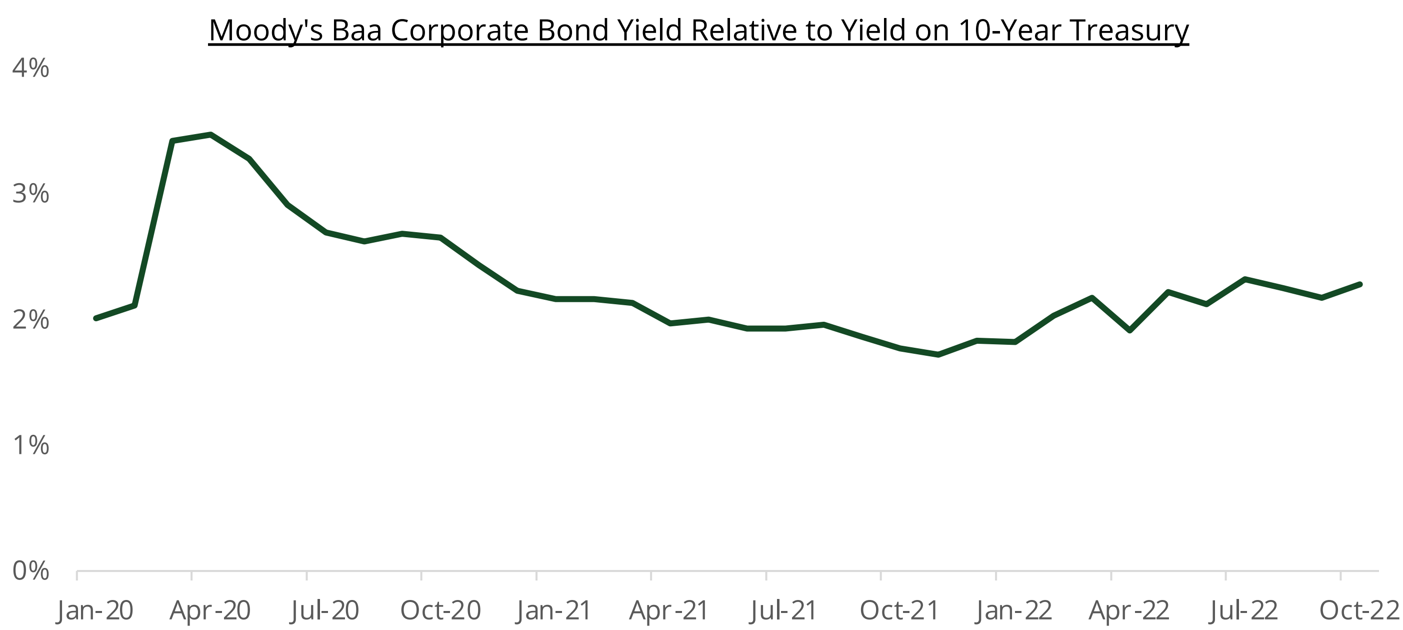
Source: PitchBook, Capital IQ

Debt Capital Markets

Debt issuance in the U.S. has slowed as negative sentiment continues to flood market headlines. M&A and LBO volume in the leveraged finance market fell from $65 billion raised last quarter to $50 billion in Q3. Fortunately for DCM, there is about $43 billion in the pipeline for M&A and LBO activity which will likely help reopen the market. Looking forward, volatility will most likely stay persistent as the Federal Reserve continues its current agenda. Issuers should continue to be tactical as windows of opportunity arise.



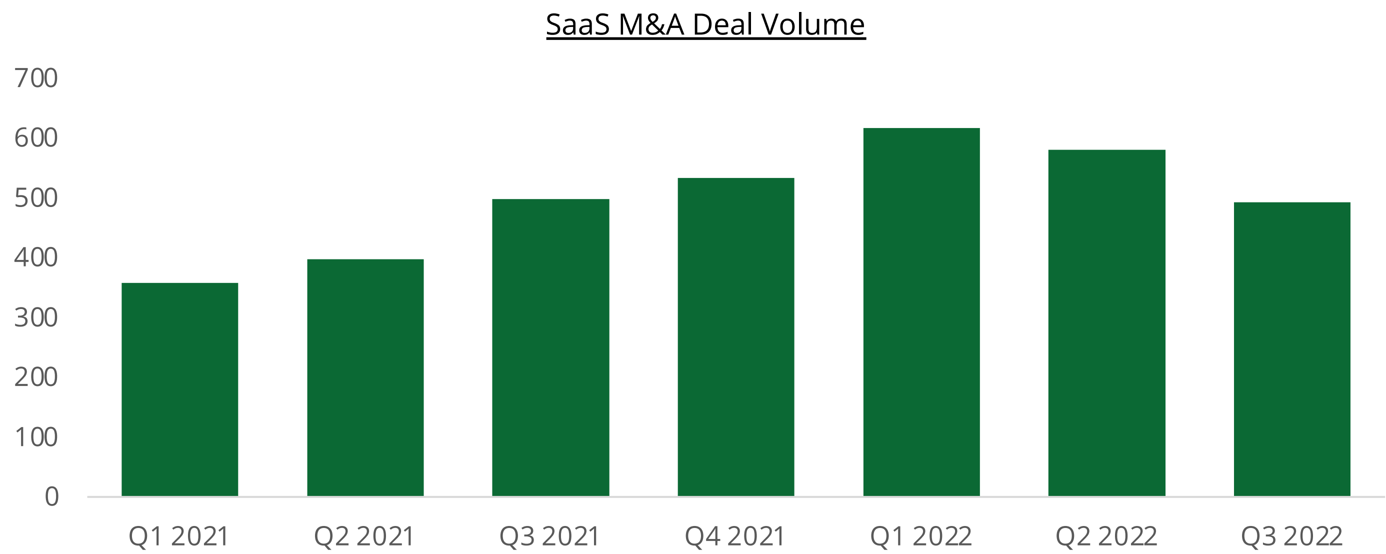
With many current inflationary factors in the U.S., the Federal Reserve has raised the federal funds rate by 3% since the end of 2021. Rates are expected to increase another 1.25-2% over the next two quarters. Although the economic outlook remains challenged, corporate bond spreads remain relatively stable against risk-free rates. Bond yields are at attractive levels and are holding a lower correlation against equities than in Q2.



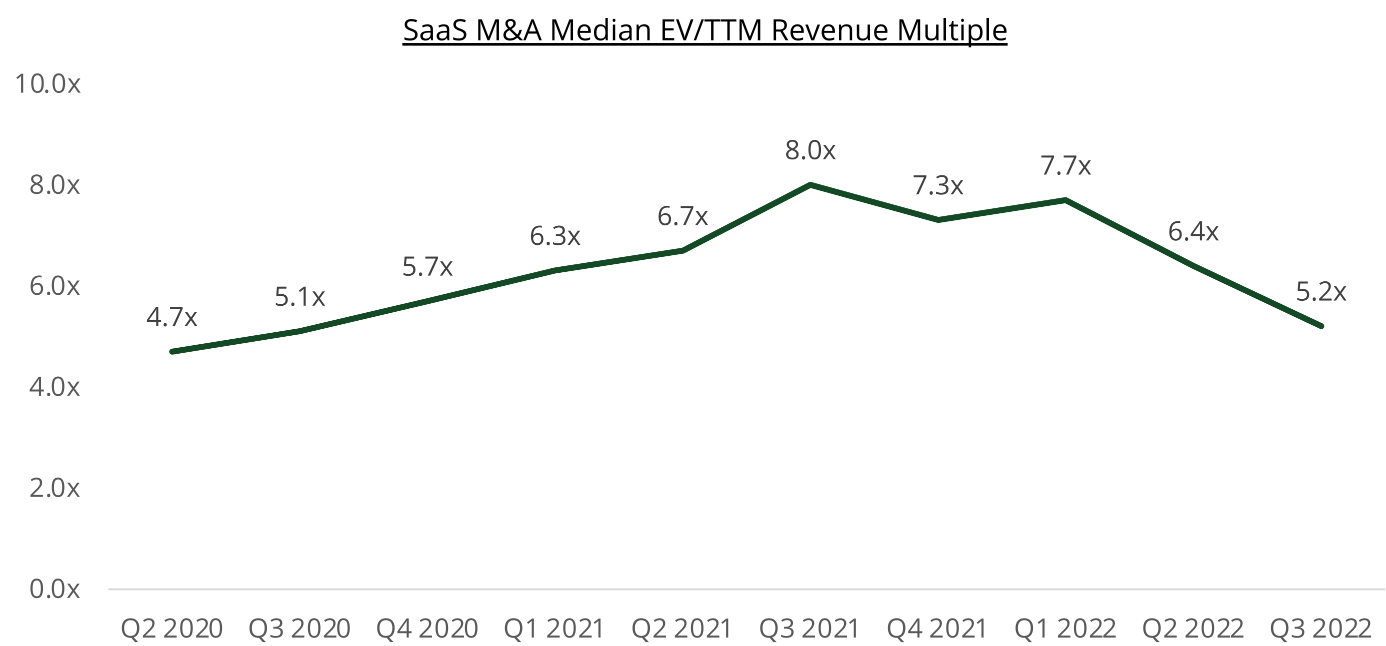
Source: PwC, S&P Global, Wescap Group, FRED, Vanguard

SaaS Overview

With the completion of 492 SaaS M&A deals in Q3 2022, the first three quarters of 2022 have realized a 35% increase of deal volume when compared to the same three quarters in the previous year. Although deal volume this year has surpassed that of the same period in 2021, Q3 of 2022 had the slowest quarter of M&A activity since 2010. Projections through the end of the year expect total deal flow to continue to slow, yet estimated deal volume is projected to exceed the +1,700 acquisitions realized in 2021.



Q3 2022 posted a median EV/Revenue multiple of 5.2x for SaaS transactions, which has dropped 35% since Q1 2022. Although multiples have dropped each quarter since record highs in 2021, multiples continue to sit higher than 2020 and preceding years. SaaS valuations and multiples have stayed higher than other industries through continued economic downturns, as public markets are down 61% YoY. Private Equity and strategic buyers continue to lead most investments despite valuation drops, taking advantage of private acquisitions at lower multiples.



Source: Software Equity Group, PitchBook

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