CREWE CAPITAL

MERGERS & ACQUISITIONS MARKET UPDATE

Q2 2023

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M&A Market Update

Q2 2023

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Market Overview

The financial markets in the second quarter of 2023 displayed mixed signals, indicating a hopeful, but uncertain, path ahead. The S&P 500 surged forward, defying expectations and increasing by 15% YTD. Interest rate hikes were paused in June, but Federal Reserve officials have indicated that additional hikes will likely be required later this year. The Consumer Price Index (CPI) increased by 3% YOY, marking the lowest increase in over two years. Lastly, the introduction of artificial intelligence platforms has caused an eruption of excitement, driving up market sentiment. Despite many positive market indicators, inflationary risks, high interest rates, and recessionary shadows persist, making for a complex economic environment.

While public equities had a strong quarter, the M&A market showed a more mixed performance. The number of M&A transactions announced or completed remained at near-record levels, while the value of these deals decreased to $873.4 billion, down 6.5% from the previous quarter. This decrease in value marked one of the weakest quarters since the pandemic-induced drop in Q2 2020. Amidst uncertain market conditions and lower deal values, transactions have continued to close, highlighting a resilient market and persisting demand for high-caliber deals.

The difference between M&A deal value and the number of deals can be explained by higher interest rates and the significant cash reserves held by companies and financial sponsors. Higher interest rates have affected financial sponsors who rely on floating-rate debt for leveraged buyouts. The yield-to-maturity for loans supporting these buyouts rose to 9.5% in the first half of 2023, up from 6.2% in the first half of 2022. At the same time, the ratio of debt to the value of these buyouts has decreased, impacting deal sizes. Financial sponsors still contribute to 33.5% of all M&A transactions, although this has started to decline after ten years of growth.

There is a substantial amount of dry powder held by investors, amounting to $1.4 trillion, which is 9.7% shy of its all-time high. Companies also have sizeable cash holdings, particularly in the US, reaching over $4.0 trillion in Q1 2023. With growth in corporate profits having turned negative for several quarters now, attention has turned to increasing revenue through acquisitions.

This combination of available funds and corporate cash reserves puts pressure on potential acquirers to make purchases, while being limited by current credit conditions. A comparison with the period before the pandemic reveals a decrease in the velocity of deals despite an increase in total deal count. Furthermore, the prices paid for global M&A transactions are undergoing correction. EBITDA multiples have fallen from an average range of 9.7x to 10.5x in the years leading up to 2021 to a median of 8.8x in the twelve months ending Q2 2023. Similarly, multiples have declined for revenue-based metrics as well.

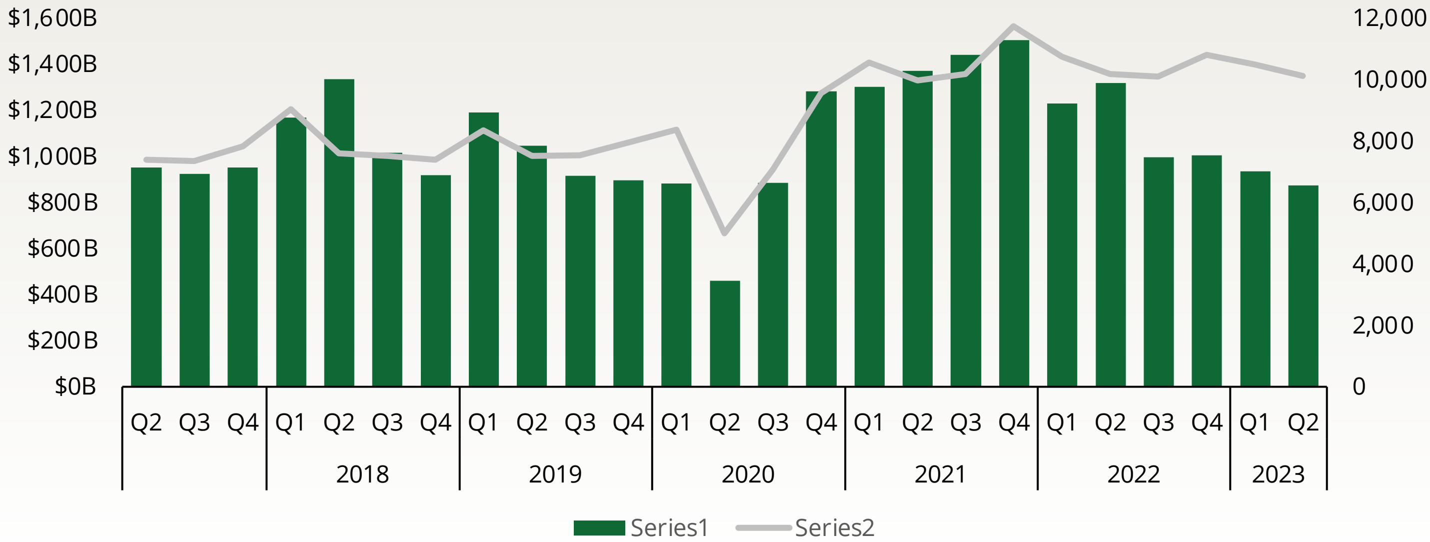
While overall multiples have decreased, the appeal of founder-owned businesses in M&A transactions continues to rise due to being less dependent on financing, cycle, and valuation than sponsor-backed companies. Amid the scarcity of financing leverage for growth, a heightened emphasis on operational enhancements within founder-owned enterprises has driven a nearly 10% increase in the prevalence of founder-owned companies as M&A targets, accounting for 61.5% of total deals. Over the same period, their share of M&A value increased from 31.3% to 43.5%. As sponsor- and corporate-backed companies remain reserved, the appetite for non-backed targets is expected to increase.

Source: PitchBook, EY, FRED

M&A Activity

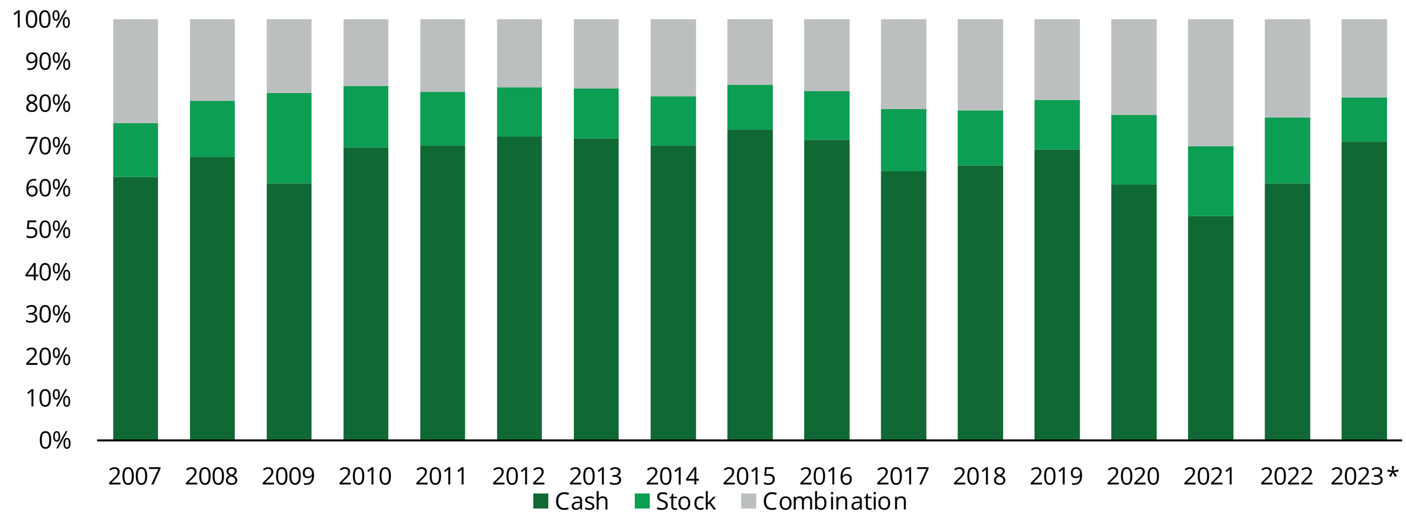
Q2 2023 M&A activity surpassed pre-pandemic deal flow with an approximate deal count of 10,111**. Conversely, deal value has struggled to match past quarters, totaling $873.4 billion, a 6.5% decrease from Q1 2023. High borrowing costs and constrained credit across markets can be attributed to the overall decrease in deal value seen this quarter. Despite prevailing high-interest rates, corporations and financial sponsors continue to hold significant dry powder which, combined with an appetite for strategic acquisitions, suggests a promising outlook for renewed growth soon.

GLOBAL M&A ACTIVITY



Driven by better-than-expected corporate earnings and optimism about economic recovery, the public equities market showed strong performance in Q2, with gains of 13.3% and 8.7% recorded by the Nasdaq and the S&P 500, respectively. While outlooks are promising, the recovery from the bear market has been followed by an ongoing preference for cash purchases while confidence in the stock market continues to rebound. This prevalence of cash acquisitions can also be attributed to substantial amounts of dry powder and cash reserves. Notably, all-cash acquisitions have risen by 9.8% since 2022, while stock and combination deals have seen declines of 5.0% and 4.7%, respectively.

M&A DEALS BY PAYMENT TYPE



*2023 values are through 6/30

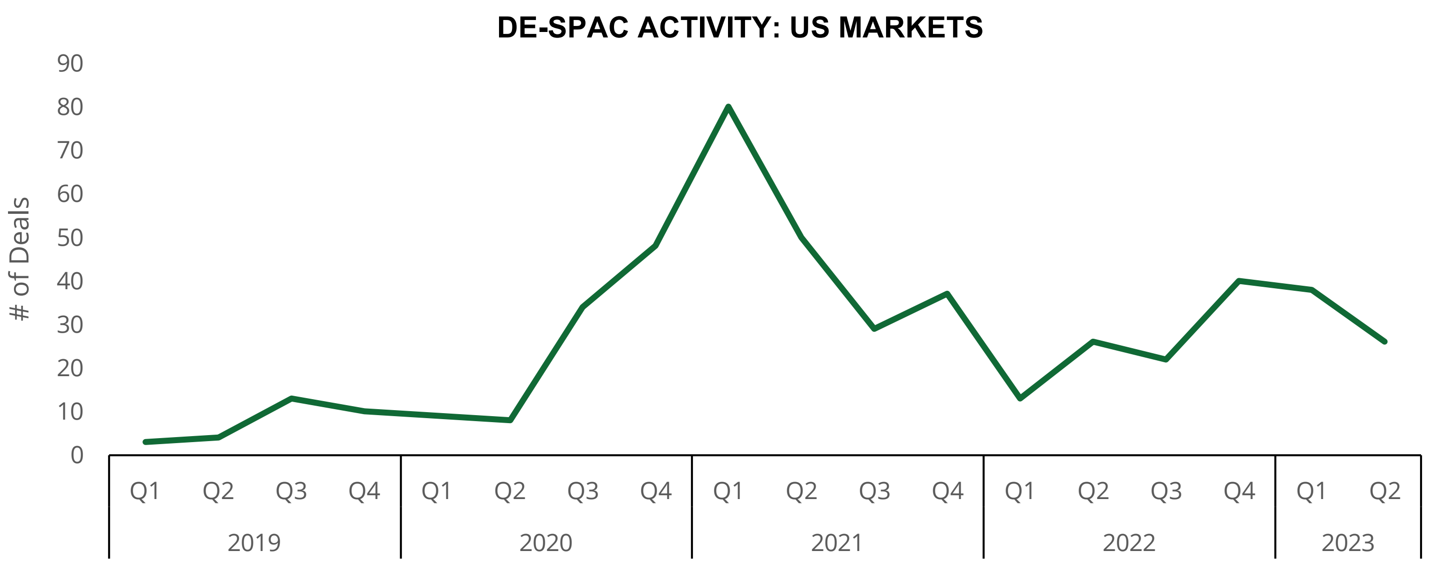
** This number is both announced and expected deals

Source: S&P Capital IQ, PitchBook

IPO Activity

Globally, there were 368 IPOs in Q2, marking the slowest quarter since the pandemic. Despite the continued slow pace of IPOs since Q1 2022, recent improvements in market sentiment and the uptick in follow-on activity could be a signal of better days in the IPO market later this year or next year. Equities have rebounded from the lows of 2022, inflation may have peaked, interest rate increases could be nearing an end, and volatility has subsided to pre-COVID levels. With a hopeful outlook ahead, total capital invested in Q2 rose 36%, reaching approximately $32 billion.

While only 16 SPAC IPOs on US exchanges were completed in the first half of 2023, de-SPAC deal count has remained high, with 38 deals in Q1 and 26 in Q2. The busiest sectors for de-SPAC activity were healthcare, technology, energy and power, and industrials, with AI serving as a key driver for de-SPAC activity across all sectors. Though total deal count is high, announced de-SPAC deal value totaled $17.2B in the first half of 2023, down 20% from the first half of 2022. Many SPAC sponsors have remained on the lookout for investment opportunities and have secured extensions to their investment periods, lengthening the runway for deal flow.

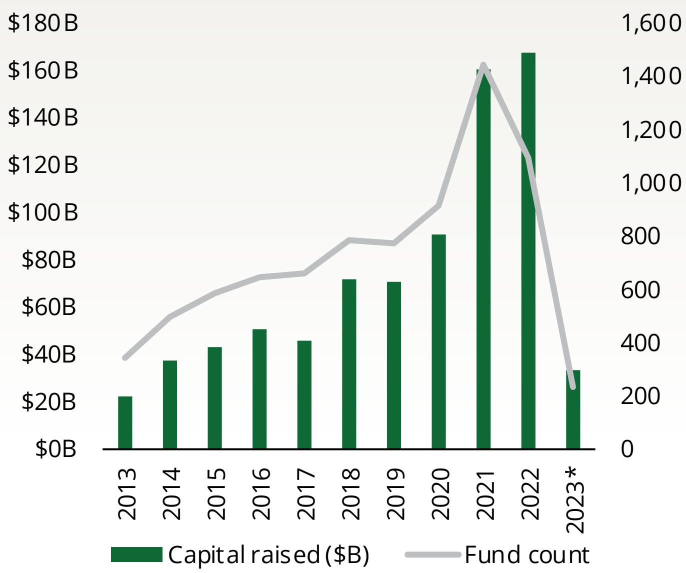


Source: S&P Capital IQ, PitchBook, EY

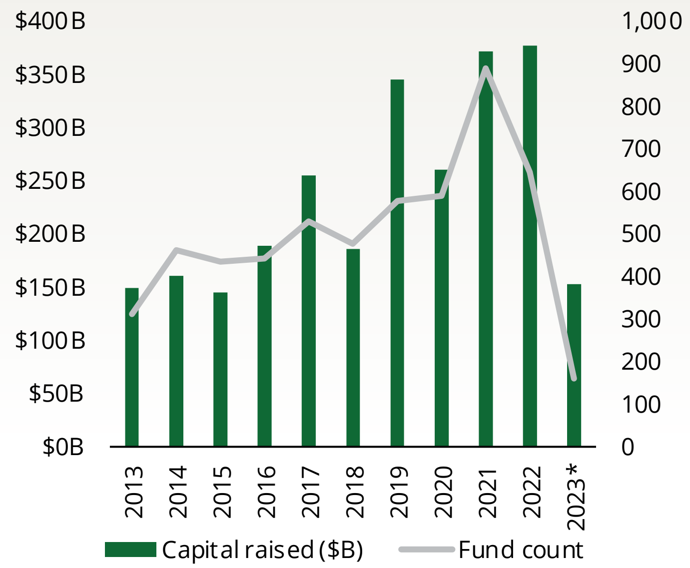
Fundraising

After a slow start in Q1, fundraising for both private equity and venture capital gained momentum, with venture capital fund counts surging from 99 to 233 and raising an additional $21.6 billion in capital, while private equity fund counts more than doubled from 73 to 160. Notably, PE groups accumulated $153 billion. Despite Q2 showing improvements, stubborn interest rates have subdued figures compared to previous years, with fundraising lagging 15-22% behind 2022 levels. Amid this broader market decline, middle market ($100M - $500M) PE fundraising has resurged, accounting for 57.4% of 2023 fund value closures and a record 60.5% share of all PE fund closings. Although megafund closures dipped in the first half of 2023, anticipated closures by industry leaders such as Blackstone, Apollo, Carlyle, TPG, CDR, Vista, and Warburg Pincus are poised to reverse this trend in the second half of this year.

US VENTURE FUNDRAISING BY YEAR

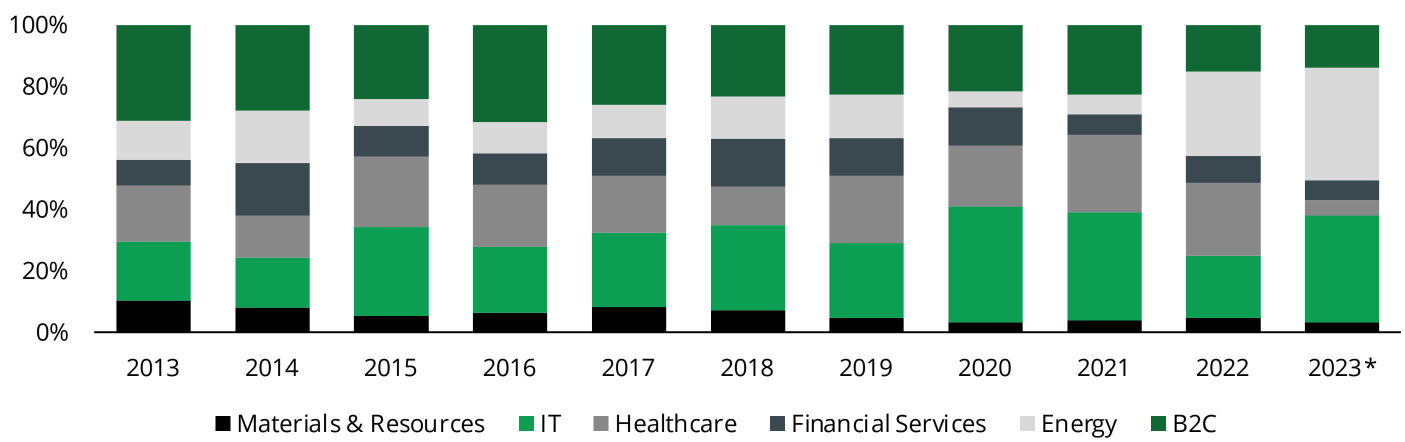


US PE FUNDRAISING BY YEAR



Amidst a 2023 PE exit slowdown, Q2 witnessed a rebound with 289 PE-backed companies exiting, totaling $87.3 billion—a 3.7% rise. However, overall quarterly exits remain below pre-COVID levels as general partners hold portfolio companies in hopes of improved valuations and revenue. A drop in the exit to investment ratio of 0.32x points to an impending "maturity wall" as multiple PE funds near term-end simultaneously. Despite delayed exits, Q2's resurgence hints at market adaptability and a potential revitalization.

PE EXITS BY SECTOR

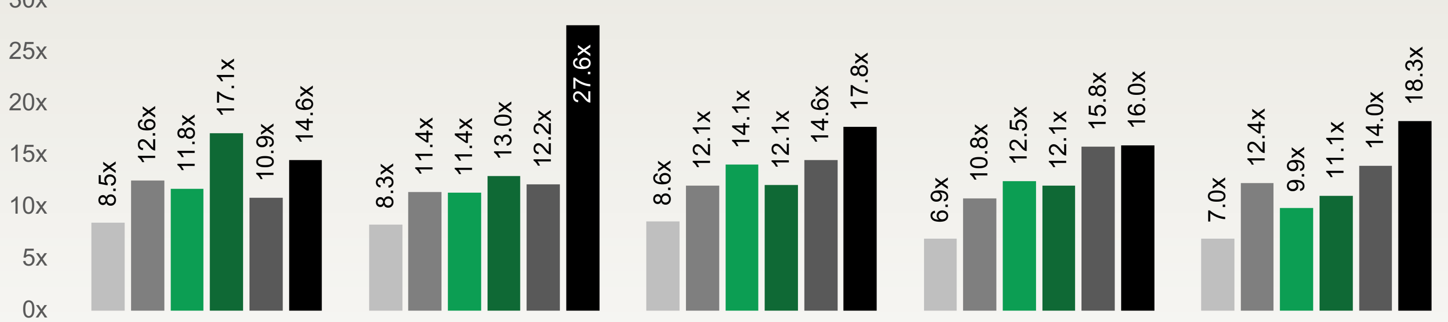


*2023 values are through 6/30
Source: PitchBook

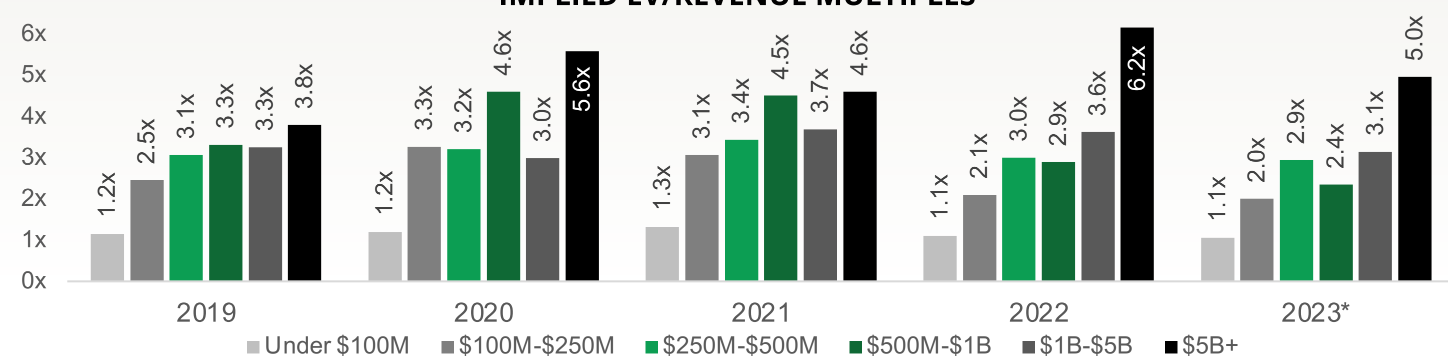
Multiples Overview

Through Q2 2023, the median M&A transaction EV/EBITDA multiple stands at 8.8x, slightly down from 9.1x the year prior, with higher multiples for larger companies. Quarter to quarter, multiples have risen for sub $100M, $100M-$250M, and $5B+ companies. The median EV/Revenue multiple now stands at 1.6x, down marginally from 2022. With lower transaction multiples and subsequent valuations, investors remain on the lookout for strategic acquisitions.

IMPLIED EV/EBITDA MULTIPLES

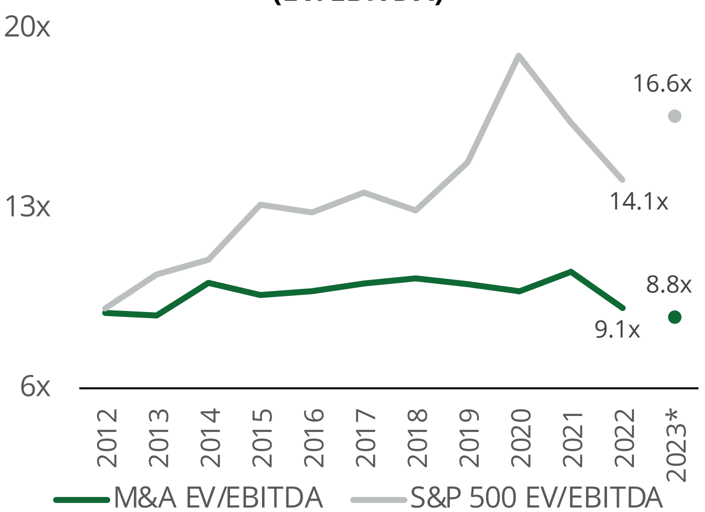


IMPLIED EV/REVENUE MULTIPLES

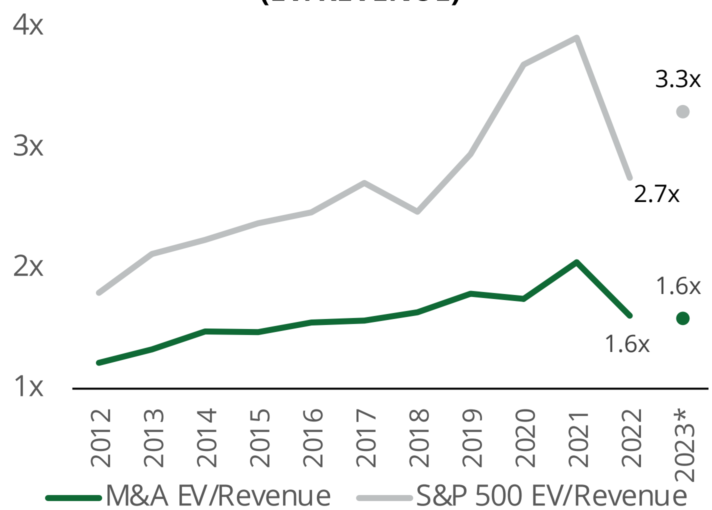


While median M&A EBITDA multiples have stayed within the range of 8.8x–10.5x over the last 10 years, public company multiples have seen a larger variation, ranging from 9.1x-18.9x. Public EBITDA trading multiples made a sudden jump from 14.1x in Q1 to 16.6x in Q2, while M&A multiples continued on a slow decline. EV/Revenue multiples have followed a similar pattern, with public multiples increasing from 2.7x to 3.3x and M&A multiples remaining at 1.6x.

PUBLIC COMPANY VS M&A MULTIPLES (EV/EBITDA)



PUBLIC COMPANY VS M&A MULTIPLES (EV/REVENUE)



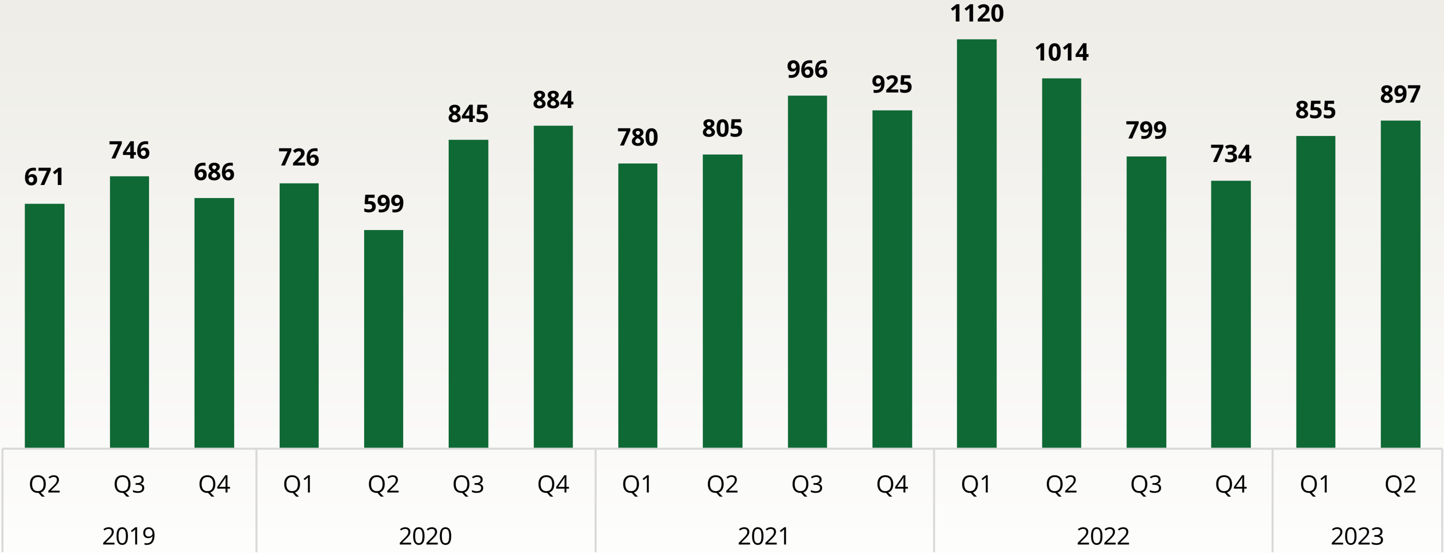
*2023 values are through 6/30

Source: S&P Capital IQ, PitchBook

SAAS Overview

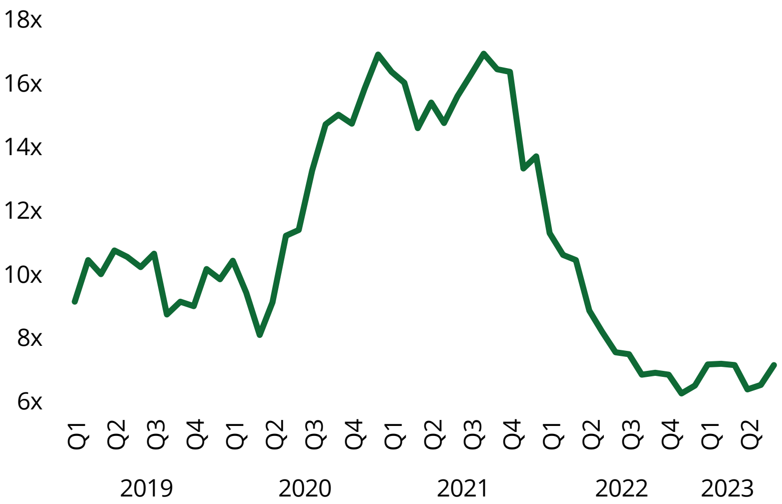
The overall software industry has seen a strong rebound in M&A volume since Q4 2022, reaching 897 deals in Q2 2023. Though this figure represents a decrease from the record-breaking volumes of 2022, software deal activity for the first half of 2023 exceeded all other years prior. Estimates for annual software M&A in 2023 expect the year to finish just ahead of 2021's total, on pace to be strong year from a volume perspective.

SOFTWARE M&A DEAL VOLUME

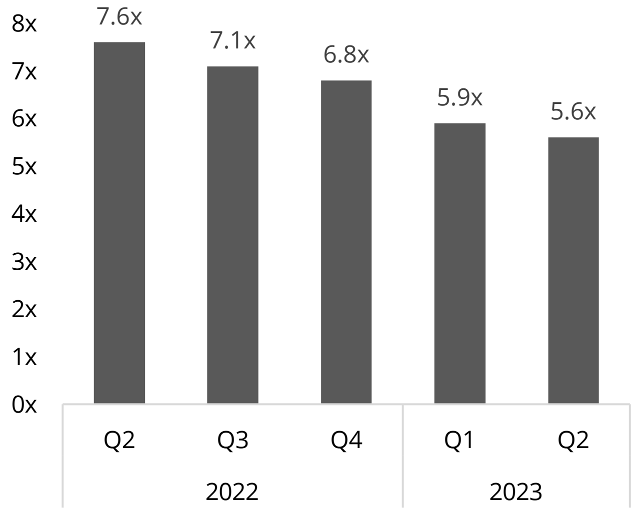


Even though SaaS deal volume has shown strength through the first half of 2023, the average EV/TTM Revenue multiple for SaaS M&A in Q2 2023 has dropped to 5.6x. While SaaS multiples have compressed over the last few quarters largely in response to high interest rates, rising inflation, and expectations of a recession, publicly traded SaaS multiples have recently begun to rise. As economic conditions continue to clear, we expect private SaaS multiples to pick up in the second half of 2023.

SAAS CAPITAL INDEX MULTIPLES (MEDIAN ARR)



AVERAGE EV/TTM REVENUE MULTIPLE



Source: PitchBook, SaaS Capital, Statista, Software Equity Group

Recent News

Darren Siegrist, MBA, CPA

Crewe Capital is excited to announce the addition of Darren Siegrist to the Investment Banking team, bringing over 25 years of financial services experience. Prior to joining Crewe, Darren worked at Rockefeller Capital Management, Merrill Lynch, and PNC Bank. He started his career in Public Accounting and received his CPA along with the Certified Exit Planning Advisor (CEPA*) designation. He earned his BA in Accounting from Michigan State University and an MBA from USC Marshall School of Business.

Sample Deals in Process

Project Titan

Leading home health and hospice company

Sell-side advisory

Coming to market in Q3

Project Steel

Commercial sheet metal and roofing solutions

Sell-side advisory

Coming to market in Q3

Project Echo

Leading commercial HVAC and plumbing contractor

Sell-side advisory

Coming to market In Q4

Project All In

Market-leading solar company

Sell-side advisory

Coming to market Q4/Q1 2024

Press Release

MarketWatch

LGCY Power engages Crewe Capital advisory services for Enphase Energy, Inc. partnership

JULY 26, 2023

Lehi, UT – LGCY Power today announced that it has engaged Crewe Capital's advisory services, including for its Enphase Energy partnership that was announced July 24, 2023. Enphase Energy, Inc. (NASDAQ: ENPH), is a global energy technology company and the world's leading supplier of microinverter-based solar and battery systems.

"Enphase has a tremendous track record of creating industry leading clean energy technology, and as we moved into a partnership to further deploy their products nationally, Crewe Capital became pivotal part of advising us in that process," said Doug Robinson, CEO of LGCY Power. "This partnership will help us to further exceed our customers' expectations while accelerating the further adoption of renewable energy."

Enphase's microinverter systems have consistently set the benchmark for reliability, performance, and ease of installation, enabling homeowners to maximize the energy harvested from their solar panels and energy storage solutions.

"We believe Enphase Energy to be the perfect partner to help LGCY Power capitalize on growth opportunities," said Michael Bennett, managing partner of Crewe Capital. "As a global leader in energy technology, they were able to quickly recognize LGCY as a standout platform. Enphase's strategic products and relationships will help LGCY continue on their growth trajectory."

Sources

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