CREWE CAPITAL

MERGERS & ACQUISITIONS MARKET UPDATE

Q2 2022

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Market Update
Q2 2022

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Market Overview

With downward momentum persisting from Q1 2022, Q2 has seen some of the same headwinds, ultimately contributing to a slower economy and lower deal activity. The Russia-Ukraine conflict, high inflation, rising interest rates, and recession fears are notable factors causing this market uncertainty and deal postponement.

In June, for the first time in 40 years, the Consumer Price Index (CPI) rose 9.1%, increasing concerns of persistent, high inflation. In response, the Federal Reserve raised rates 75 basis points. Depending on inflation and other factors, in Q3 the Fed is expected to be less aggressive on interest rates.

Fears of a recession have had a significant impact on the state of the U.S. market. U.S. GDP decreased by 1.4% in Q1 2022 primarily caused by a swelling trade deficit, before falling again by 0.9% in Q2, sending a clear recession signal.

The S&P 500 suffered its worst first half of a year drop since 1970, falling more than 16% in the first six months of 2022. For the first time this year, U.S. consumer spending fell in May, suggesting weaker consumer confidence brought on by continued interest rate hikes and soaring inflation.

Though supply chain issues started in 2020 with the Covid-19 lockdown and worsened due to high consumer demand from federal stimulus checks, supply chain issues have persisted, amplified by the ongoing conflict in Ukraine. As a result, the overseas conflict continues to have a profound effect on recovering supply chains, particularly in the energy and infrastructure sectors.

M&A activity in Q2 slowed in response to the aforementioned macroeconomic events, but the market remained active, primarily driven by private equity. Private equity and venture capital firms have large amounts of dry powder remaining from a year of record fundraising in 2021 and are still actively acquiring.

IPO activity has slowed in conjunction with the economy, illustrated by global IPO volume decreasing 43% year-over-year. Despite this significant decrease, it is pertinent to note that 2021 was a record-breaking year for IPOs and was unlikely to be matched by 2022 in terms of deal activity and valuations.

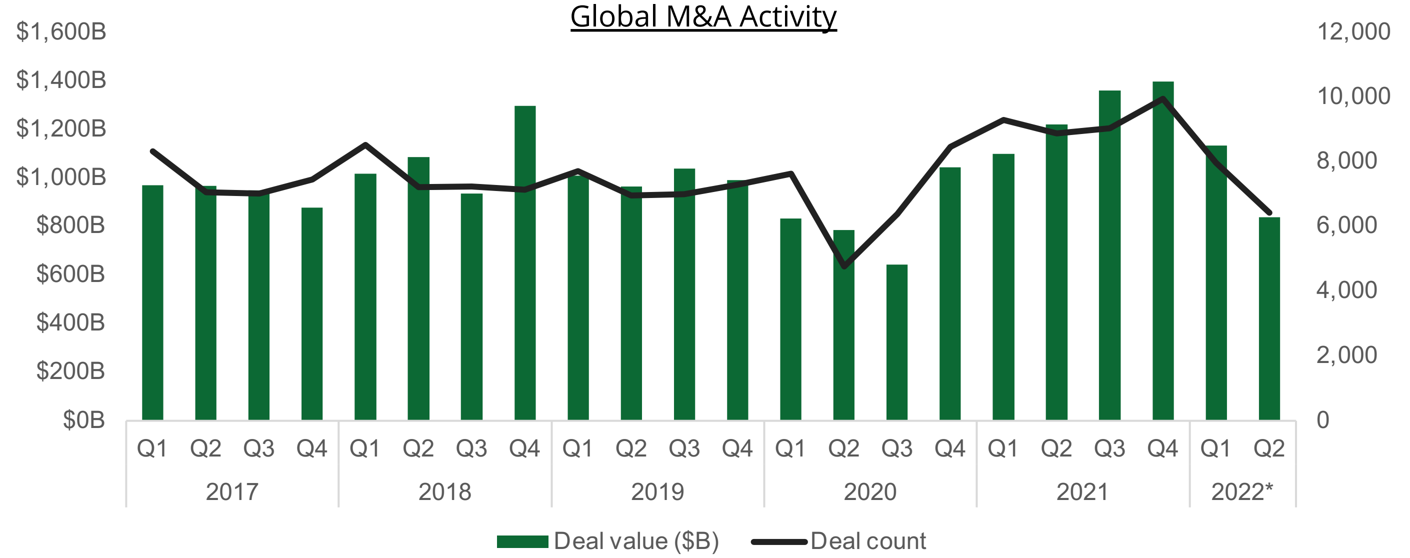
Ultimately, we expect market activity to stabilize in the second half of the year, assuming the above issues persist. Though the Federal Reserve is targeting a “soft landing” to avoid a deep recession, many factors are at play and doing so might not be possible. If a ”hard landing” occurs, we expect M&A activity to continue to slow in conjunction with the economy as consumer spending falls.

Source: PitchBook

M&A Activity

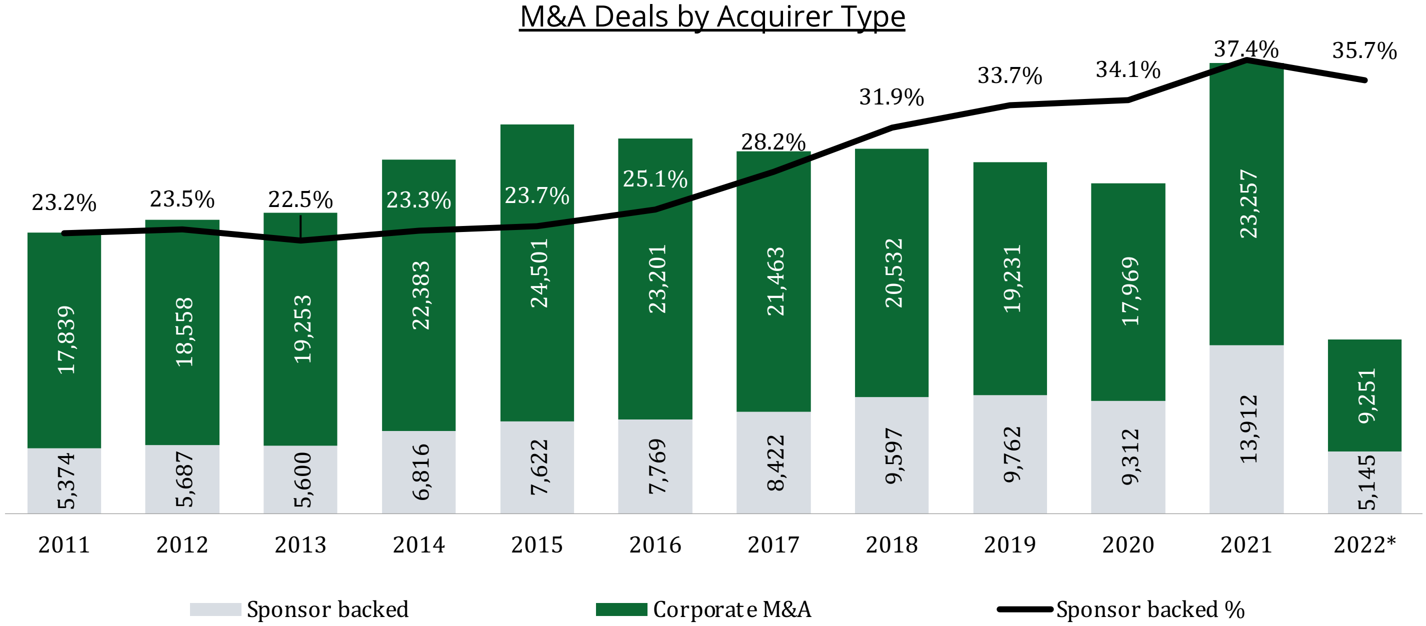
M&A activity has continued to slow in Q2 2022. Although overall activity is down, the market is far from inactive. Buyers have been reluctant to pay the same record high valuation multiples seen in 2021 due to overall economic uncertainty but see the market as an opportunity to acquire companies in cyclical industries at a discounted price. Private equity funds are deploying the significant amount of dry powder raised throughout 2021. We expect this trend to continue for as long as there is considerable dry powder in the markets and valuations remain depressed.

Global M&A Activity



Driven by the record levels of dry powder in the market, private equity firms accounted for 35.7% of all M&A deals in Q2 2022. In contrast, poor market conditions and high interest rates have caused fewer corporations to make strategic acquisitions. The lack of strategic acquisitions has been the primary reason for the slowing of the M&A market. Looking forward, we anticipate inflation and economic uncertainty to continue to exert downward pressure on the M&A market with Q3 2022 yielding results similar to Q2.

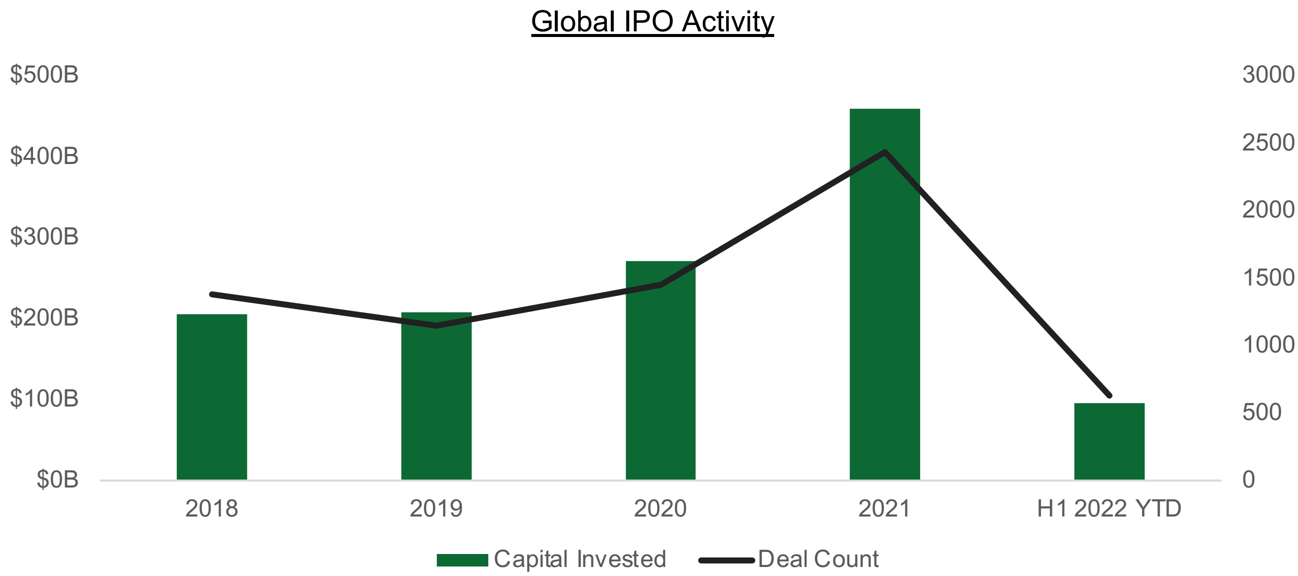
M&A Deals by Acquirer Type



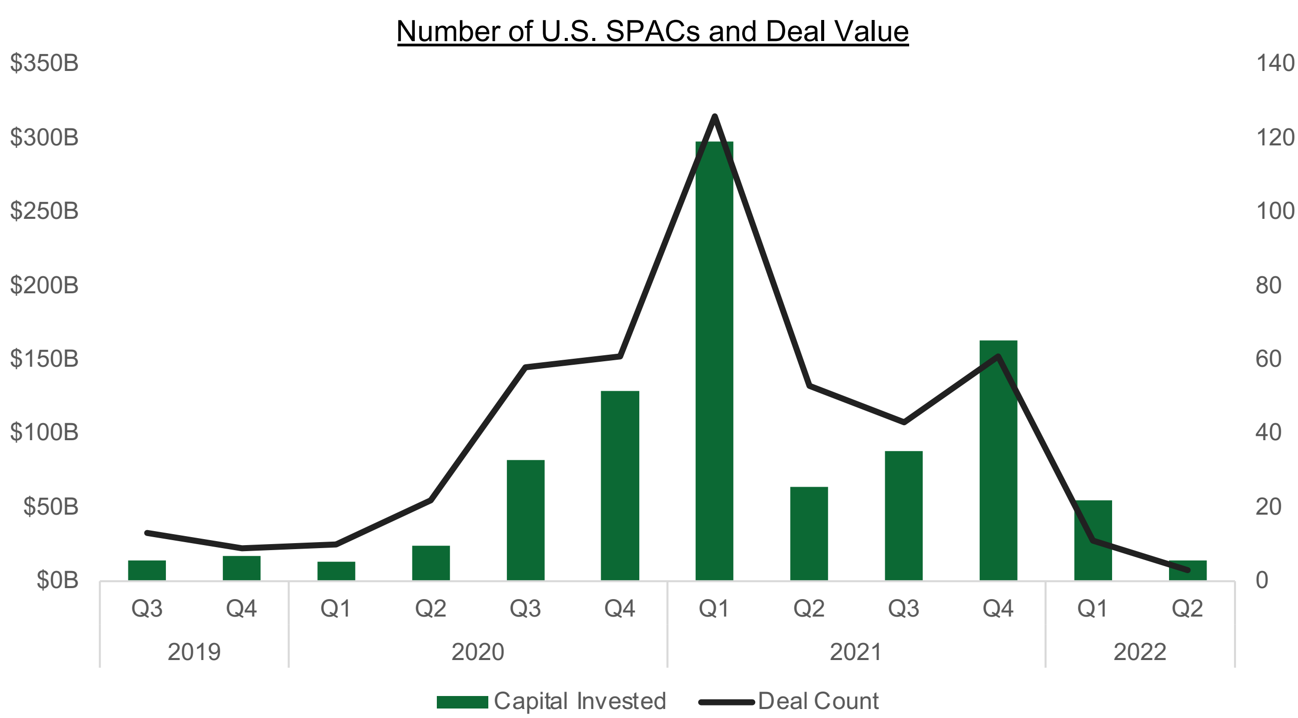
*Values through 6/30/2022
Source: PitchBook, PwC, J.P. Morgan

IPO Activity

Due to macroeconomic problems causing high volatility in the public markets, Q2 2022 has seen a measurable slowdown in IPO deal activity. Companies looking to go public have been hesitant to IPO with depressed valuations and poor post-IPO performance. As a result, global IPO volume fell 46% and IPO proceeds fell by 58% H1 2022 year-over-year.



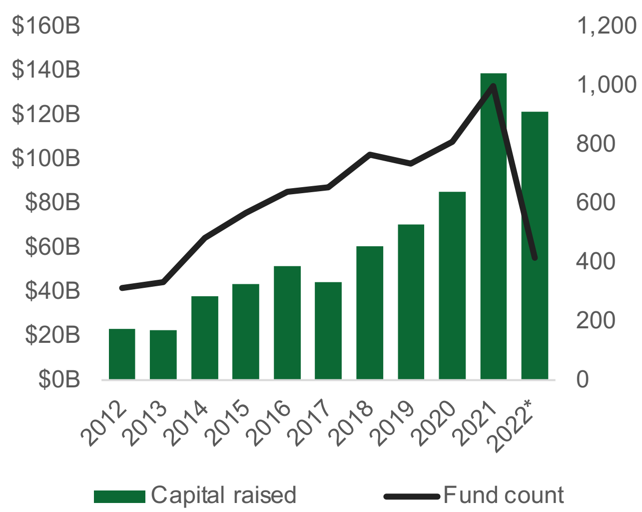
SPAC IPOs have slowed significantly through H1 2022. With poor market performance of recently closed SPAC mergers, the pace of new SPAC transactions has been negatively impacted. Regulatory uncertainty has also caused the stall in new SPAC formations and SPAC merger announcements. With the existing large number of SPACs seeking target, we expect that market receptivity and regulatory clarity will drive and define deal flow going into the future.



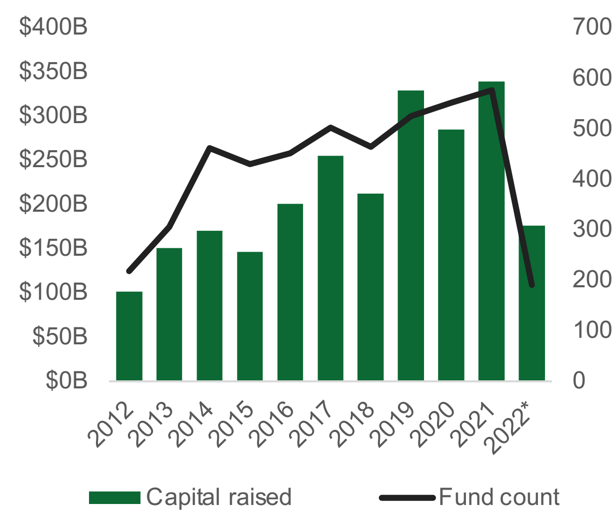
Fundraising

Through the first six months of 2022, $121.5 billion was closed across 415 funds, making 2022 the second-highest year for U.S. VC fundraising. At this rate, 2022 has the potential to become the largest year for total capital raised by VCs. These high amounts raised during increased market volatility could be, in part, capital calls on 2021 commitments from firms looking to quickly deploy funds. Alternatively, managers could be pushing to close large funds early due to poor economic outlook.

Venture Capital Fundraising



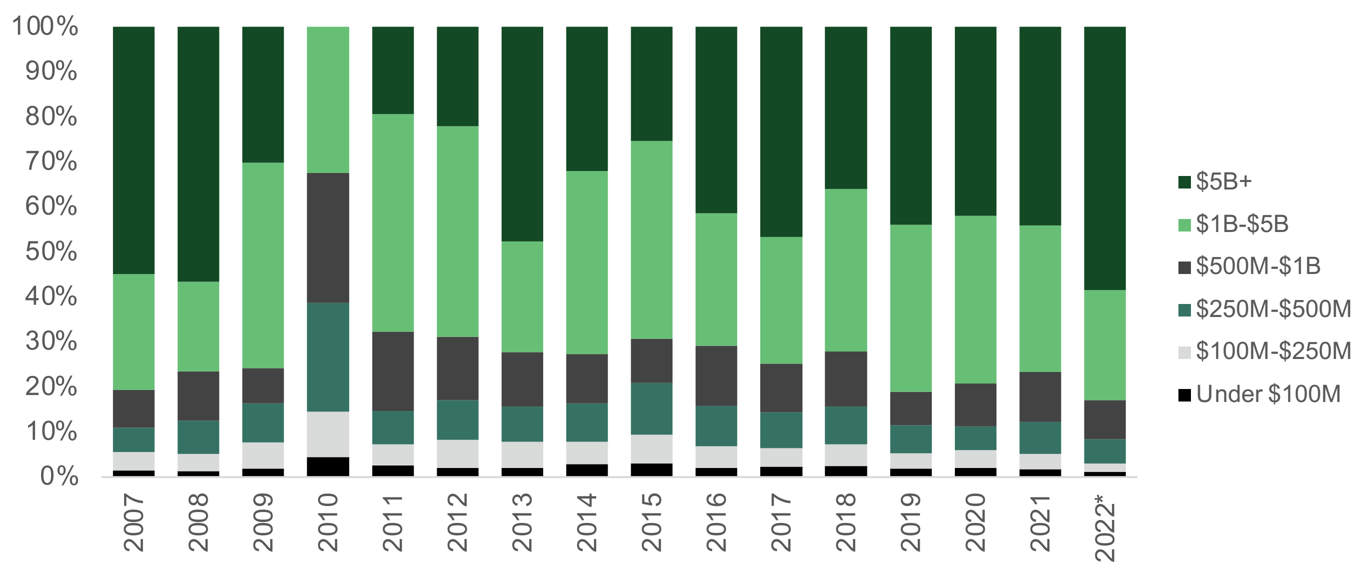
Private Equity Fundraising



Private equity fundraising has slowed in Q2 2022 in comparison to Q1 2022, although it is on track to match 2021 numbers. Due to poor market performance, PE firms are expected to slow their deployment pace from the rapid 1-2-year disbursement rate in 2021, resulting in fewer deals.

Mega funds have made up the majority of the total PE dollars raised so far in 2022 with 58.4%, a higher percentage than any of past 15 years. Smaller funds may be raising less as they are sitting on large amounts of dry powder that has yet to be deployed.

Private Equity Fundraising by Fund Size



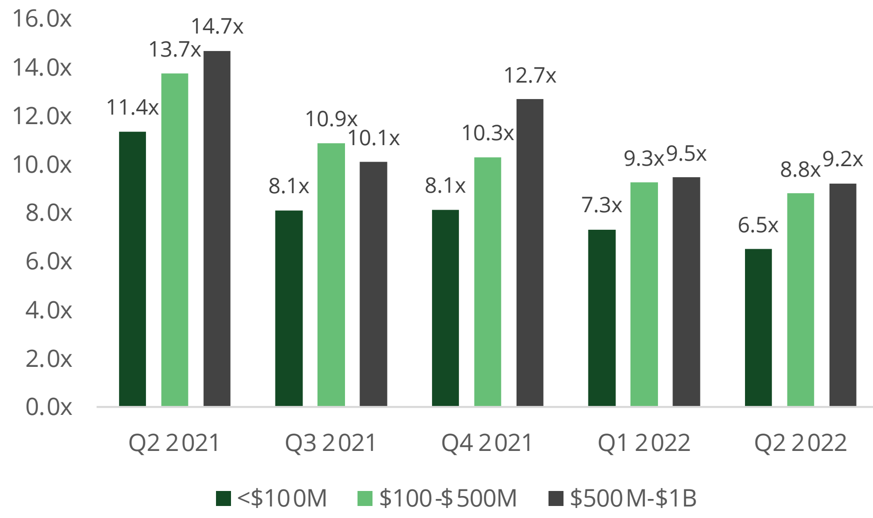
*Values through 6/30/2022

Source: PitchBook, Capital IQ, EY, Stock Market MBA

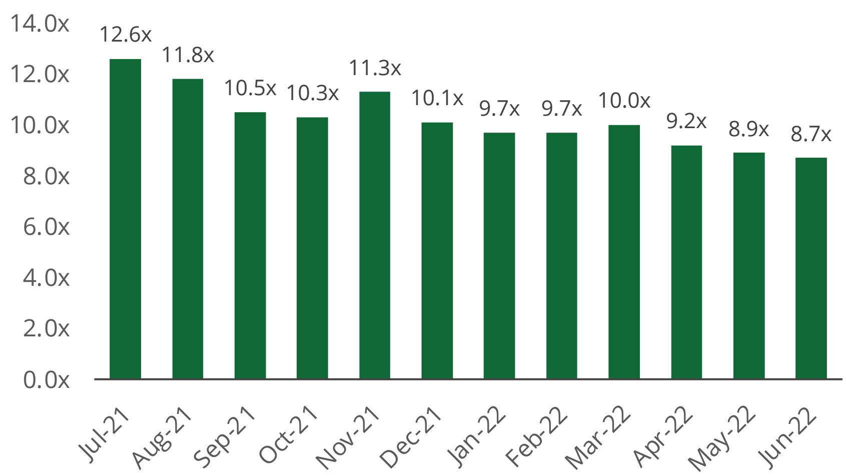
Multiples

M&A transaction multiples fell again in Q2 2022 as market uncertainty played a factor in what acquirers were willing to pay. Transactions for smaller companies, less than $100M in enterprise value, saw the largest decline in median EV/EBITDA multiples, down 11% from Q1 2022. Larger transactions in the middle market declined as well, but at a more moderate rate as investors mitigated risk by acquiring larger, more stable companies in the face of economic uncertainty.

Median Implied EV/EBITDA Multiples



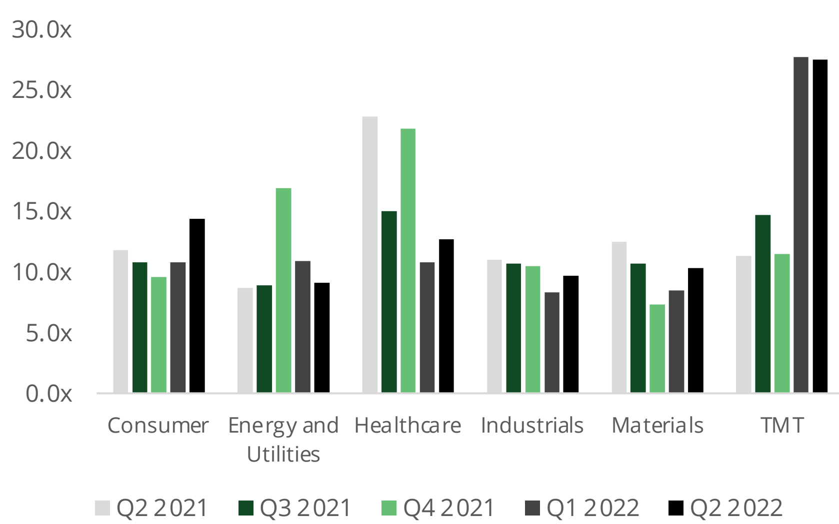
U.S. Middle-Market Trading EBITDA Multiples



Publicly traded middle-market companies have seen EV/EBITDA multiples drop sharply since 2021, falling 31% over the past 12 months. Although multiples leveled out early in the year, Q2 saw multiples decline again. We expect multiples to continue to decline gradually as the market faces economic contraction and fears of a recession.

In Q2 2022, every sector in the U.S. saw transaction multiples rise or stay stagnate other than energy and utilities, which fell from 10.9x in Q1 2022 to 9.1x in Q2 2022 as Russian sanctions continued to exert pressure on fuel prices. In contrast, the materials industry saw multiples rise from 8.5x in Q1 2022 to 10.3x in Q2 2022 due to the growing demand for lithium batteries and semiconductors. TMT multiples remain elevated due to several mega-deals in the space.

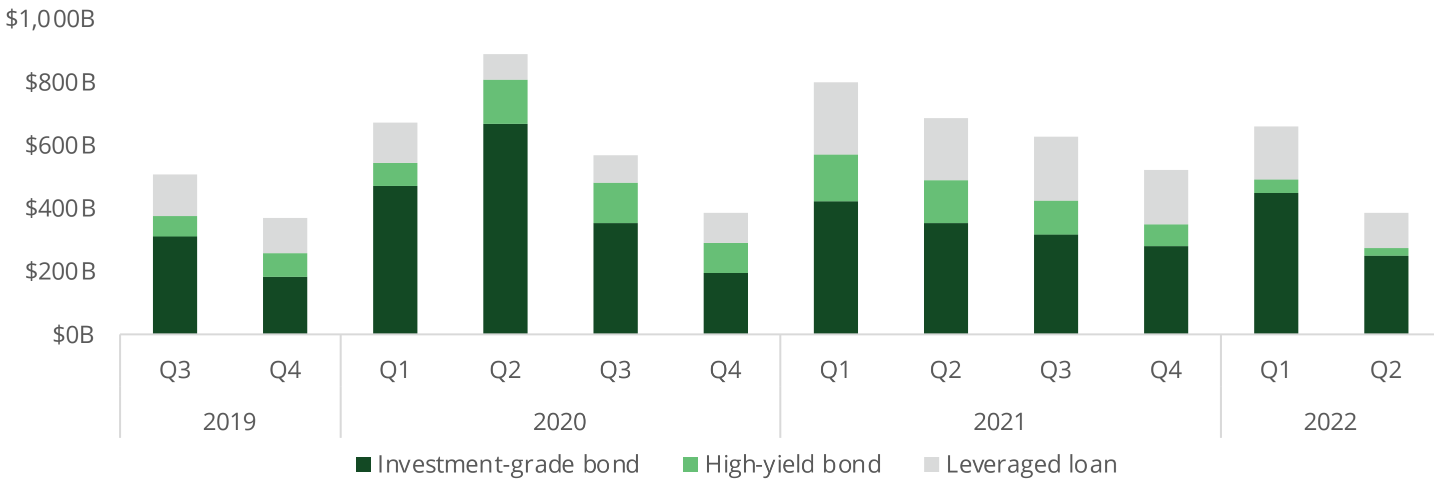
U.S. M&A EV/EBITDA Multiples by Industry



Debt Capital Markets

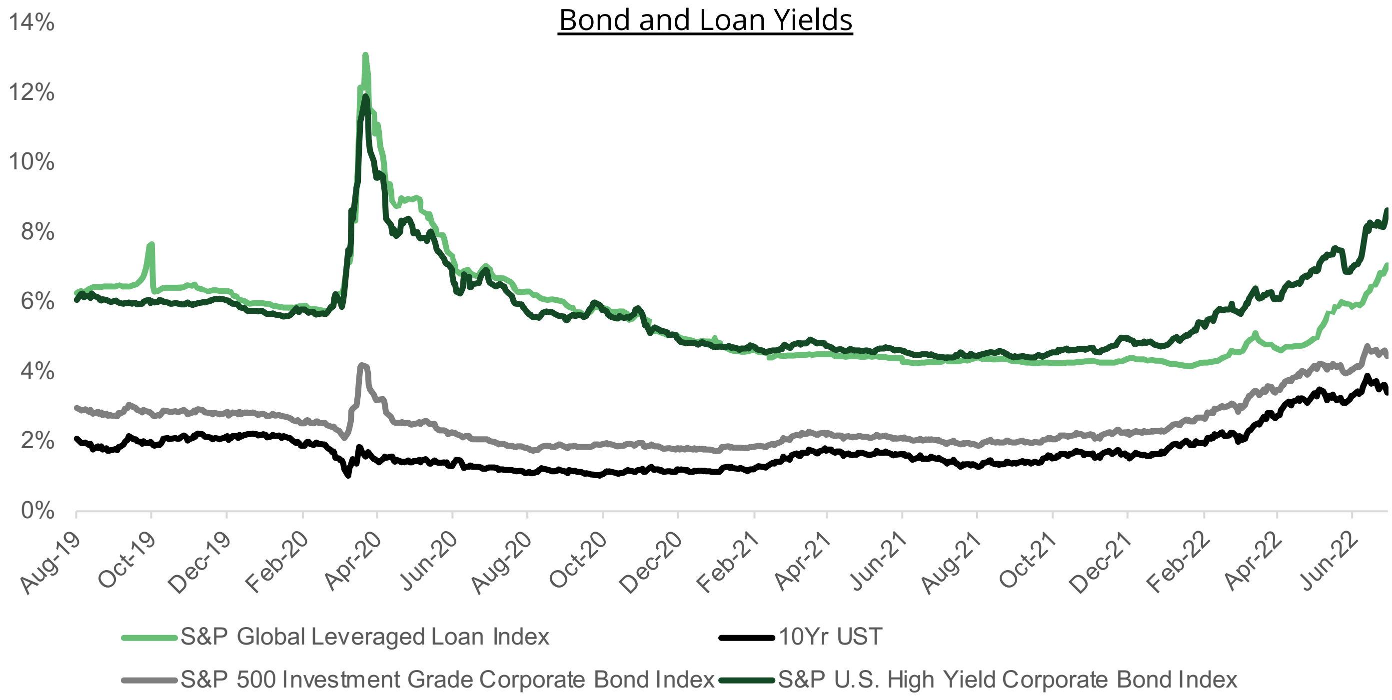
Debt markets in the U.S. have slowed due to inflation, market uncertainty, and the Federal Reserve's tightening of interest rates. Banks have become more risk averse in their lending, however, companies in Q2 sought to secure financing for future M&A transactions and lock in lower-rate debt in a rising rate environment. Looking forward, a healthy pipeline of $60 billion of institutional and high yield bonds is now in place for future M&A transactions.

U.S. Debt Issuance



With rising wages and other inflationary factors in the U.S., the Federal Reserve has raised the federal funds rate by 1.5% since the end of 2021. Further hikes are expected, with the benchmark rate expected to reach 3.4% by the end of 2022. Through these rate increases, the bond market has been slowly improving. The average spread of bond indexes closed the quarter at 116bps after reaching highs of 145bps in March. Although inflationary data caused sharp initial decline in the bond markets, bonds rallied into the end of the quarter despite market growth concerns.

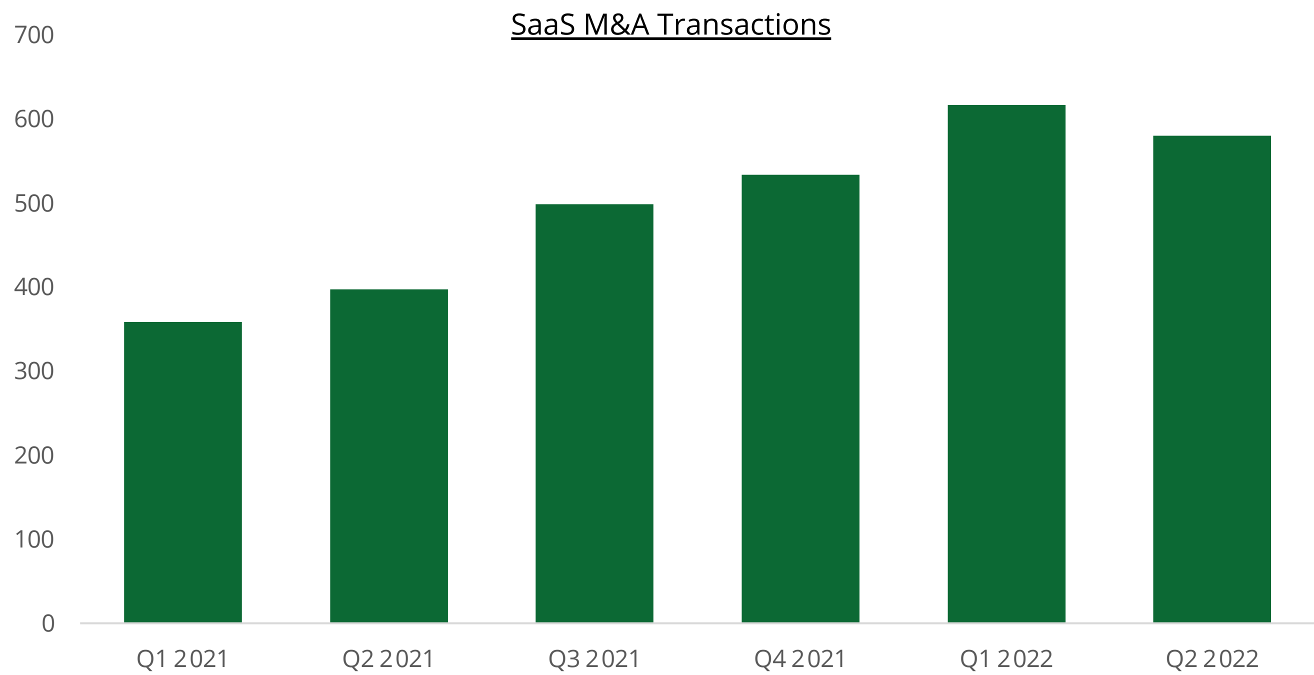
Bond and Loan Yields



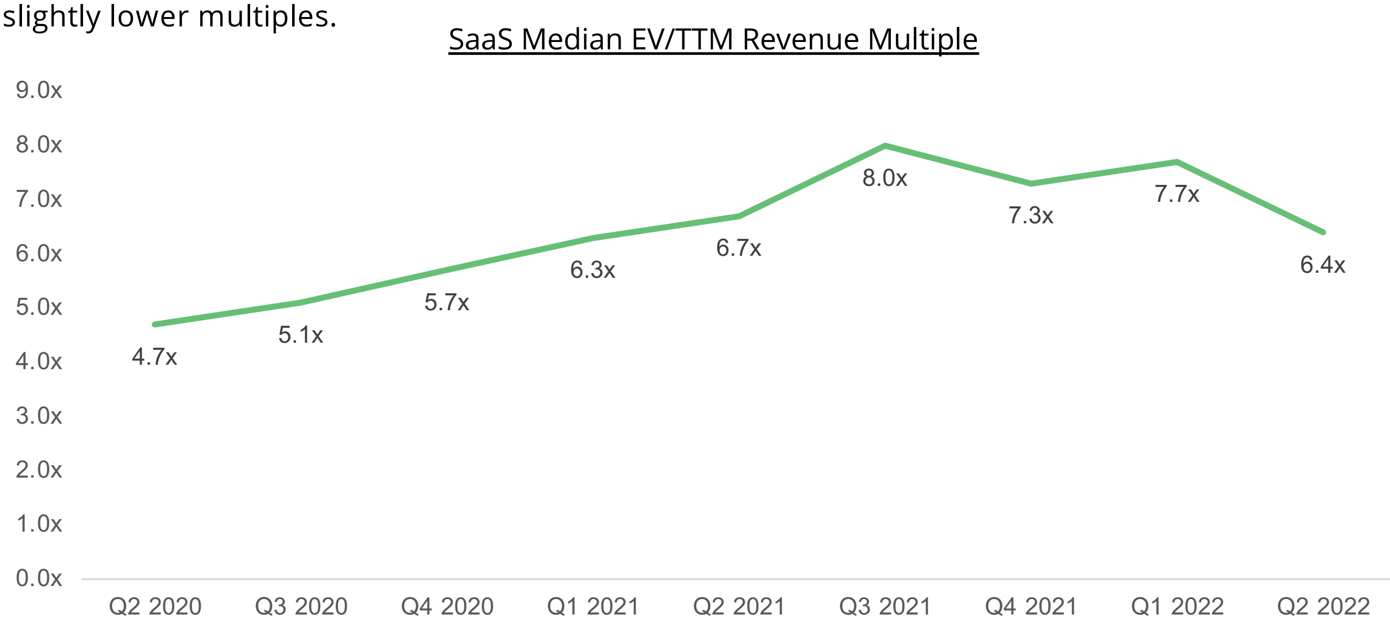
Source: PWC, S&P Global, Breckinridge Capital Advisors, Schroders, Wescap Group, Reuters

SaaS Overview

With the completion of 580 SaaS M&A deals in Q2 2022, the first half of 2022 has posted the highest SaaS deal volume on record. This deal volume is up 58% over the first half of 2021. Although deal volume was at record highs through the first half of 2022, SaaS M&A is expected to slow through the remainder of 2022 due to macroeconomic issues and the unprecedented transaction volume witnessed in 2022. Nonetheless, deal volume is anticipated to increase YOY for SaaS companies as private equity and strategic buyers look to enter new markets.



In Q2 2022, the SaaS median EV/Revenue transaction multiple dropped by 16.9% from Q1 2022. Although the median multiple of 6.4x in Q2 2022 fell from the record-high multiples of 2021, they remain higher than those in 2020. Stability within transaction multiples speaks to the strong demand for acquisitions of SaaS companies. Both private equity and strategic buyers are still investing in companies despite the drop in value of public SaaS companies, taking advantage of slightly lower multiples.



Source: Software Equity Group, PitchBook

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