CREWE CAPITAL

MERGERS & ACQUISITIONS MARKET UPDATE

Q4 2022

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Market Update
Q4 2022

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Market Overview

The slow start to M&A activity in 2022 has perpetuated through Q4. The Russian invasion of Ukraine, higher levels of inflation, and rising interest rates have all contributed to the volatility that has been observed in the market throughout the year. Consequentially, higher costs of capital and market uncertainty have made a clear impact on the global M&A market with total M&A deal value in Q4 2022 down 14% from Q3 2022, and down 45% from Q4 2021.

Despite these market headwinds, there is still potential for M&A activity to increase in 2023. With discounted valuations making some acquisitions look more attractive and large amounts of dry powder waiting to be invested, it is possible to see a boost in M&A deal volume.

U.S. GDP increased by 2.9% in Q4 2022, exceeding consensus forecasts of 2.6%. This was caused primarily by strong consumer spending, increases in private inventory investment, and government spending. The increase in GDP was slightly lower than the 3.2% pace in Q3, but higher than expectations as questions persist over whether growth will turn negative in 2023. Economists forecast that economic weakness will increase over the coming months, anticipating three quarters of negative GDP growth starting in Q1 2023 due to persistent inflation and hawkish monetary policy.

Of the macroeconomic events affecting the broader market in Q4 2022, inflation has remained very relevant. Though December's 6.5% CPI increase is less than what has been observed throughout 2022, it remains far higher than the Federal Reserves 2% mandate. To help combat this, the Federal Reserve has raised the federal funds effective rate, the rate at which banks and credit unions lend to each other, to 4.33% over a course of hikes throughout the year. Investors anticipate further rate hikes throughout 2023 until inflation returns to normal levels.

U.S. IPO activity, both traditional IPOs and SPACs, has continued to decline throughout 2022 after reaching all-time highs in 2021. Traditional IPO value is down 77% from Q4 2021, and SPACs are down a remarkable 99% since Q4 2021. IPO activity is expected to linger on low levels as market volatility and compressed valuations persist.

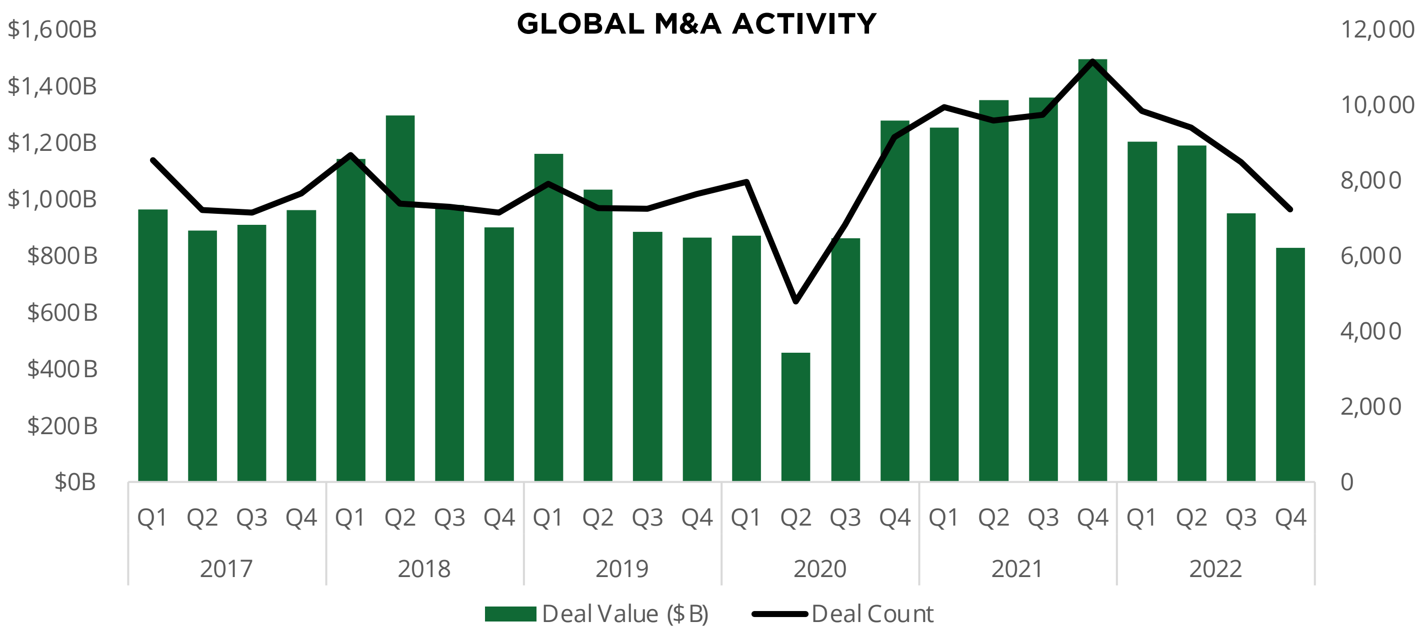
Venture capital fundraising experienced its largest decline in years, with a sharp 22% fall between Q3 and Q4 of 2022. Despite this, venture capital fundraising remains higher than pre-2022 levels. Global private equity capital fundraising remains near all-time highs with $343B of capital raised despite fund count falling substantially. While PE firms seem to be stepping back fundraising after an intense year in 2021, capital remains ready to be deployed for any investment opportunities that arise.

Ultimately, it is expected that M&A activity will remain uncertain throughout 2023. Although industry challenges exist, it is anticipated that lower valuations will provide buying opportunities for those able to navigate current market uncertainty.

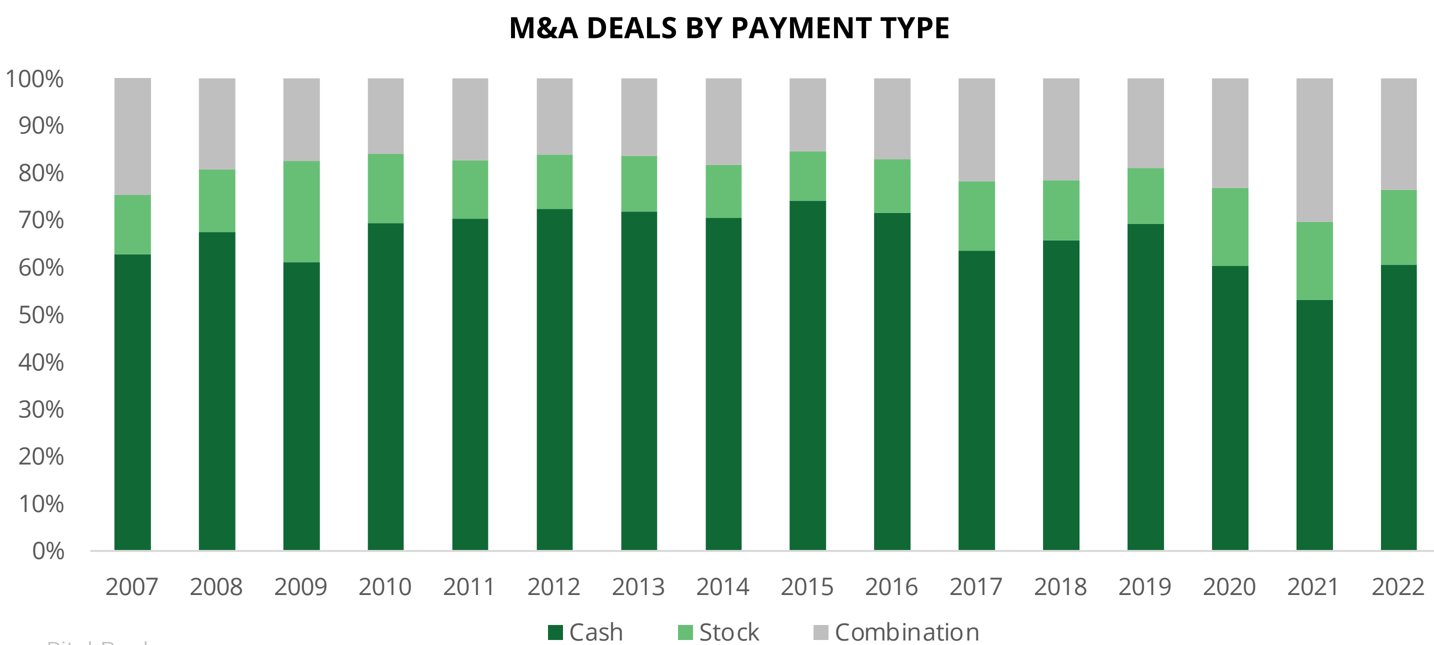
Sources: PitchBook, PwC, EY, Capital IQ, Statista, Mondrian, Bureau of Economic Analysis, USDA

M&A Activity

Through 2022 we have seen a gradual decline in M&A activity leading into Q4. Despite harsh macroeconomic headwinds, deal activity is still trending towards the median in terms of volume and size when compared to prior years. Globally, 7,232 M&A deals closed in Q4 2022 with deal value totaling $827.2B. The three largest deals of 2022 accounted for $178.8B of aggregate deal value.



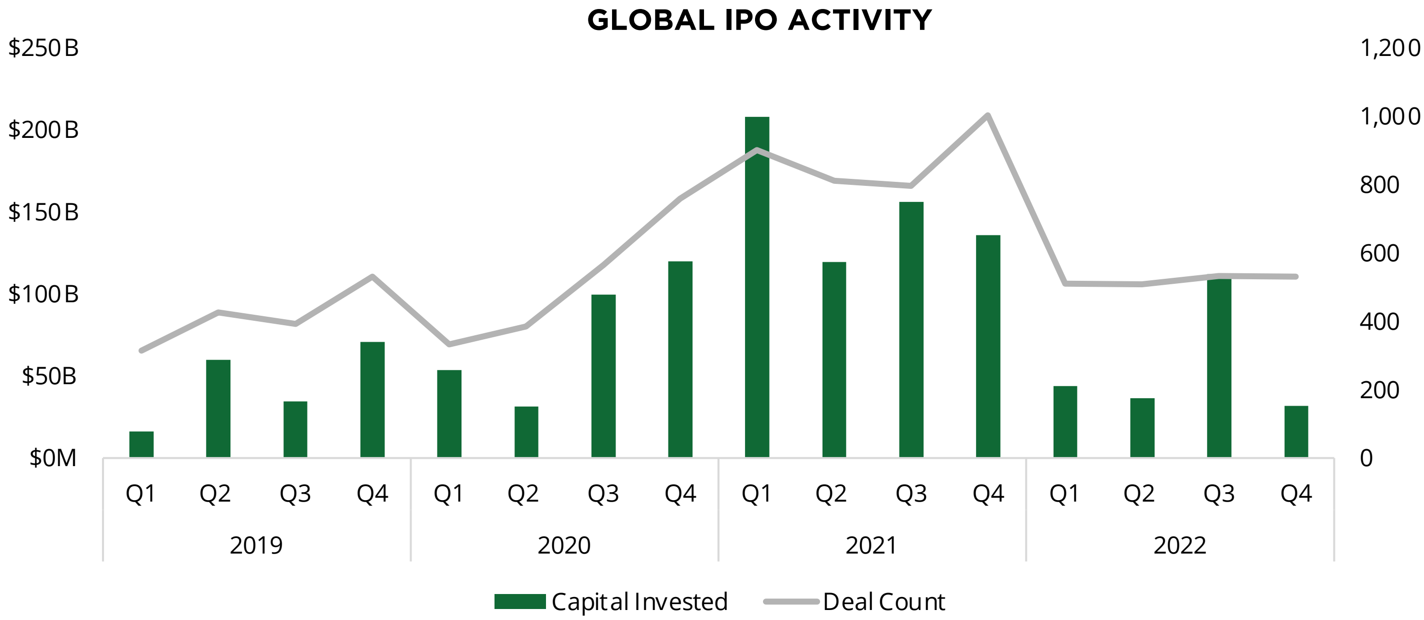
Public equities have seen a decline through Q4 2022 due to high inflation and quantitative tightening. These factors have taken away the ability of quick and easy financing from corporations and financial sponsors. However, when compared with 2019, the percentage of stock used to finance a transaction was higher in 2022. In Q4, 61% of transactions were financed through cash, 16% through stock, and 23% using a combination of both.



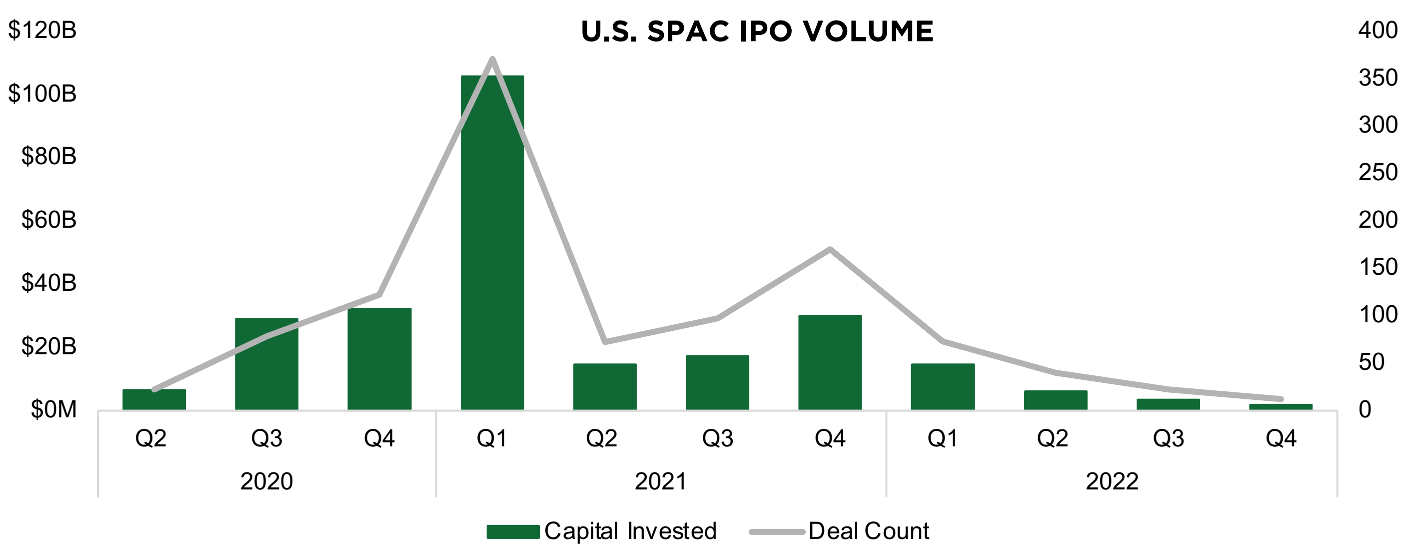
Sources: PitchBook

IPO Activity

IPO activity slowed in 2022 due to higher costs of capital and quantitatve tightening. Compared to 3,513 IPOs in 2021, 2022 IPOs totaled 2,082, with aggregate capital raised falling to $224.0B from $619.5B in 2021. In Q4 of 2022, 531 IPOs launched globally totaling $31.9B. Amidst lower market activity, some industries saw success including the tech and energy sectors leading in 55% of deal volume. In addition, among listed mega IPOs, the average proceeds in 2022 were 45% higher than those of 2021.



U.S. SPAC IPOs declined this year in deal count and in capital invested. Both dropped continuously as Q4 hit a low of $1.8B and 12 deals. Many SPACs from the late 2020s are reaching their two-year window, meaning they must find a target to merge with or return the IPO proceeds to the investors. As SPAC IPOs are down, global IPO deals are up 16% from pre-pandemic levels of 2019. Post de-SPAC performance volatility and an abundance of un-merged SPACs in the market have led to the large decline in new SPAC offerings.

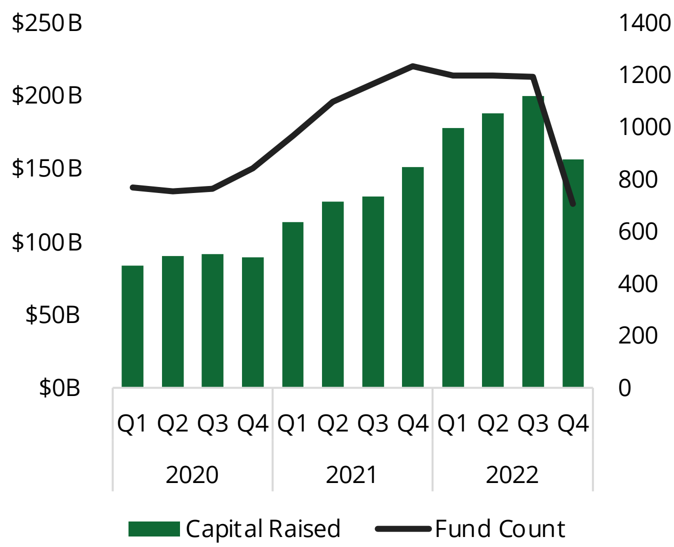


Sources: PitchBook, S&P Global, EY

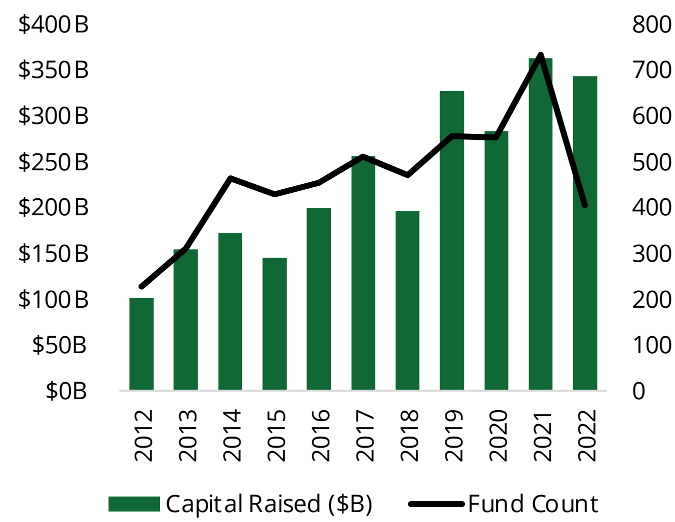
Fundraising

Q4 2022 global venture capital fundraising has declined slightly when compared with Q3, but still ended higher than any period pre-2022. Over $156.0B of capital was raised in Q4 2022, equating to almost 22% of capital raised in the year. Global private equity capital fundraising for Q4 ended just shy of all-time highs with $343.0B of capital raised, although fund count declined more than 55%. While PE firms seem to be taking a step back after a lot of activity in 2021, they are still eager to deploy dry powder for new investment opportunities.

VENTURE CAPITAL FUNDRAISING



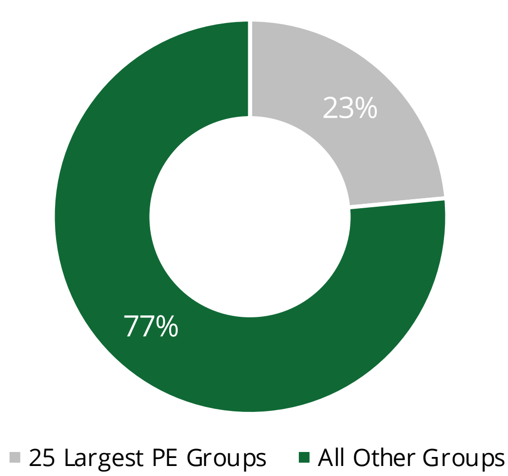
PRIVATE EQUITY FUNDRAISING



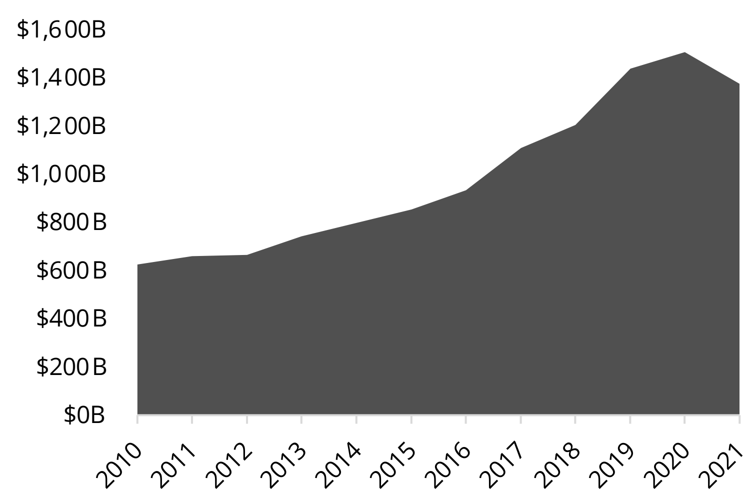
Globally, 25 private equity firms hold approximately $509.8B. The U.S. shows a prominent presence, home to the two biggest dry powder holders, Blackstone Inc. and KKR & Co. Inc. holding $43.2B and $42.8B.

Counteracting the decline in the number of funds in 2022 is the amount of dry powder. U.S. dry powder value in 2022 topped out just above $1.2T, despite having record deployment in late 2021.

GLOBAL DRY POWER HOLDERS



U.S. DRY POWDER VALUE

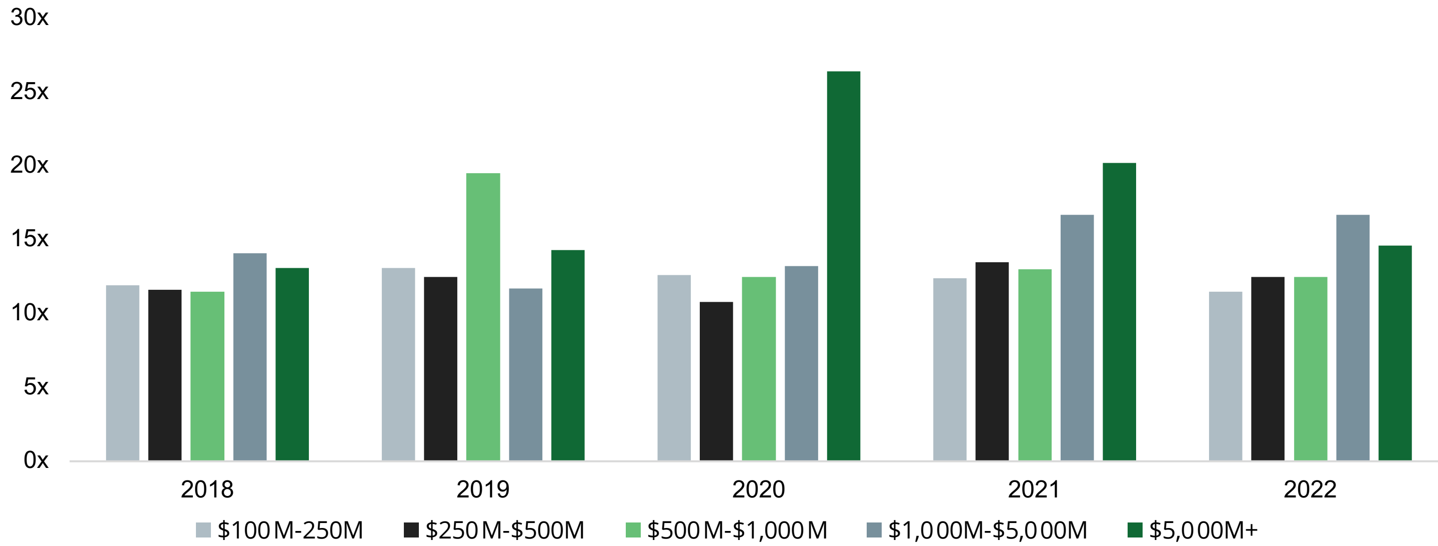


Sources: PitchBook, Capital IQ, S&P Global

Multiples Overview

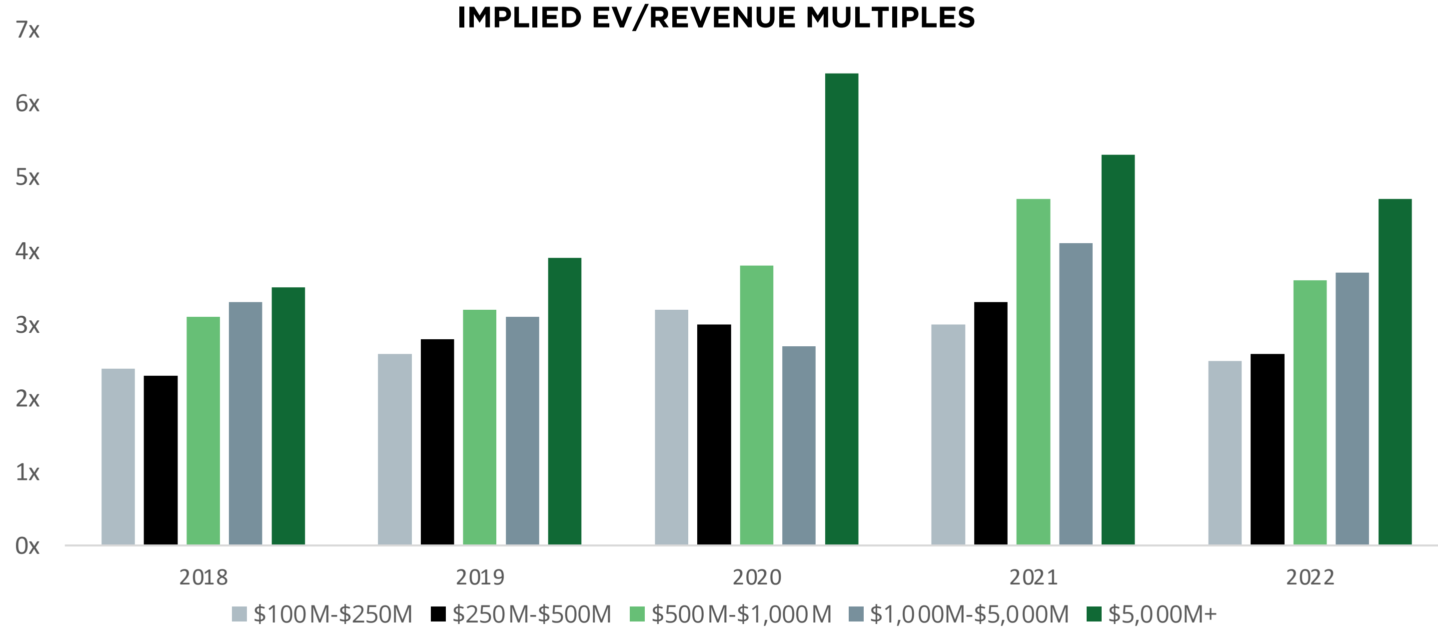
M&A transaction EBITDA multiples for larger companies ($500M+) and smaller companies (less than $100M) fell slightly during 2022 as various economic headwinds continued throughout the year. Middle-market companies ($100M-$500M), however, saw a slight increase in their transaction EBITDA multiples. This spread shows the uncertainty of what buyers are willing to pay. Overall multiples have stayed fairly high in comparison with 2018-2020.

IMPLIED EV/EBITDA MULTIPLES



In 2022, EV/Revenue multiples have compressed since the record highs of 2021. The largest declines in revenue multiples were seen in transactions in the middle market ($250M-$500M) and upper middle market ($500M-$1,000M), falling from 3.3x to 2.7x and from 4.7x to 3.6x , respectively.

IMPLIED EV/REVENUE MULTIPLES



Sources: PitchBook, Capital IQ

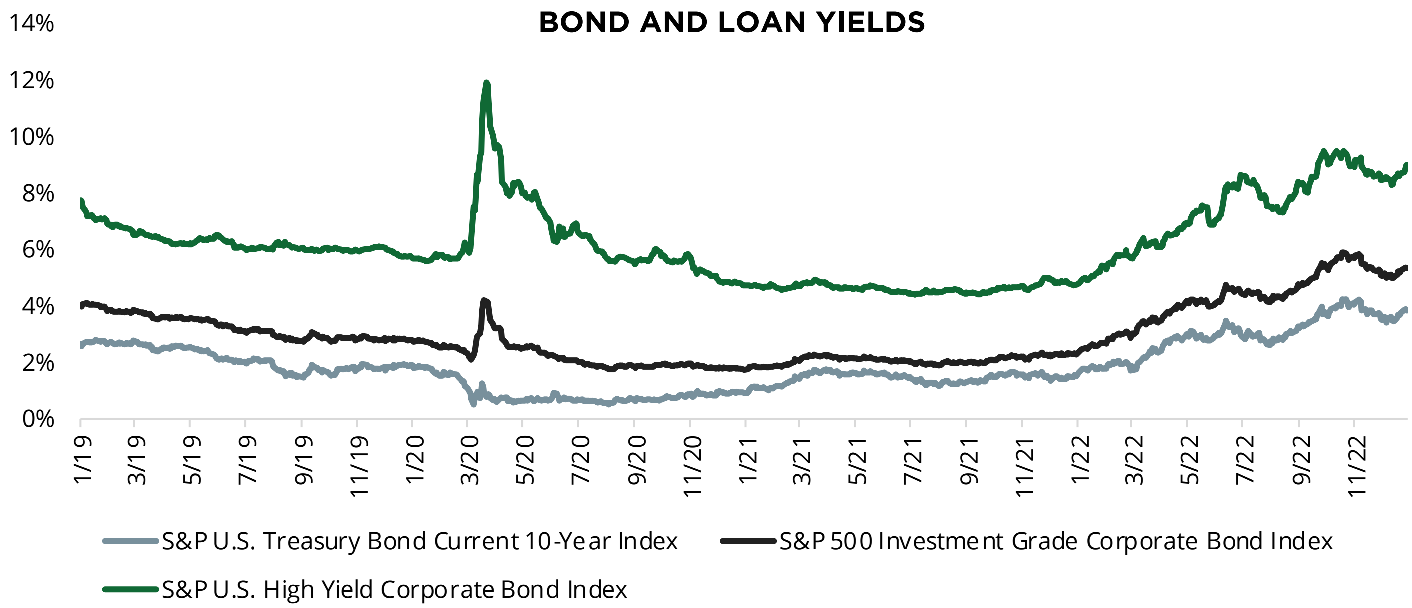
Debt Capital Markets Overview

Debt markets in the U.S. started the year strong but experienced a significant slowdown as the Federal Reserve raised interest rates at an aggressive rate throughout the year. Q4 2022 bond issuances fell to $214.0B from $291.0B in Q3, a 26.6% decline, and from $532.0B in Q1, a 59.8% decline. Investment grade bonds accounted for the majority of the capital raised in Q4 2022 at $198.0B.

U.S. CAPITAL MARKET ISSUANCE

Even with a slower speed of rate hikes, the Fed has maintained its conviction in keeping inflation under control. In order for this stretch of rate hikes to stop, a longer trend of moderating inflation will have to appear. In the meantime, it is likely that a struggling economy and higher interest rates can be a recipe for increased volatility in the markets. With increased volatility, the case for fixed income becomes increasingly appealing. Alongside what is viewed as attractive yield potential, bonds historically tend to show resilience in a recession.

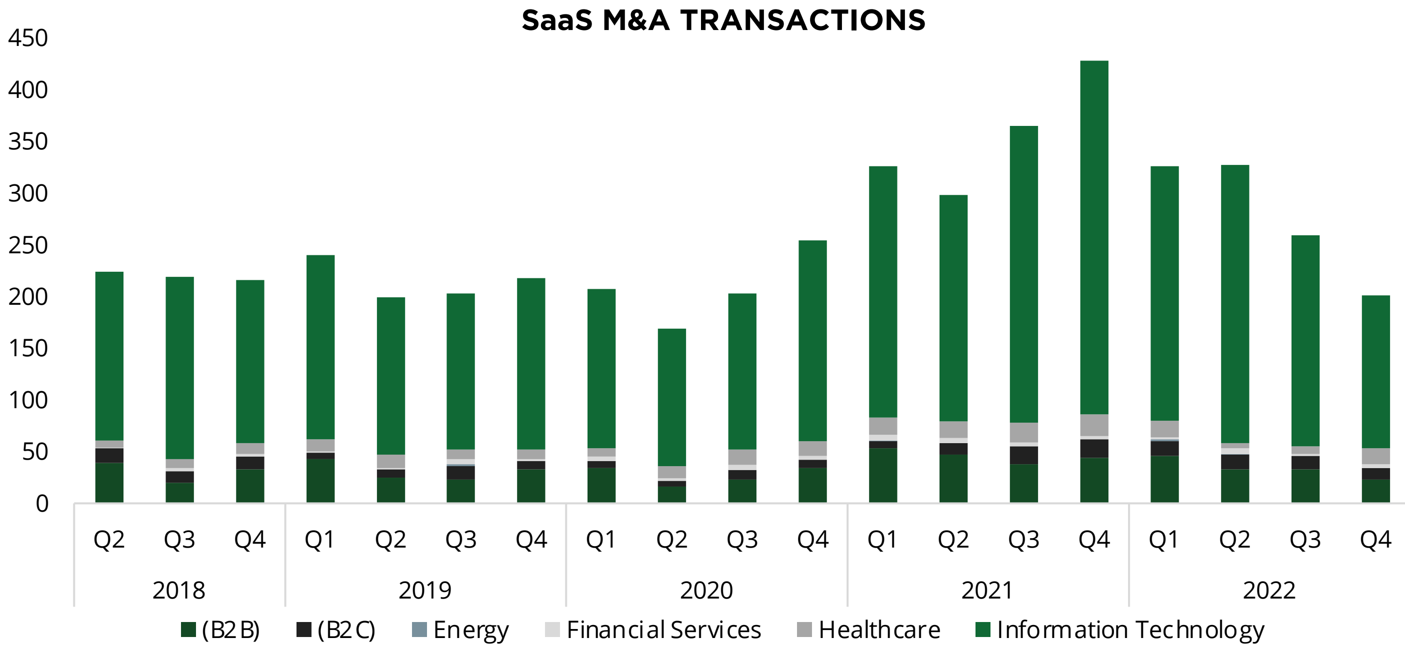
BOND AND LOAN YIELDS



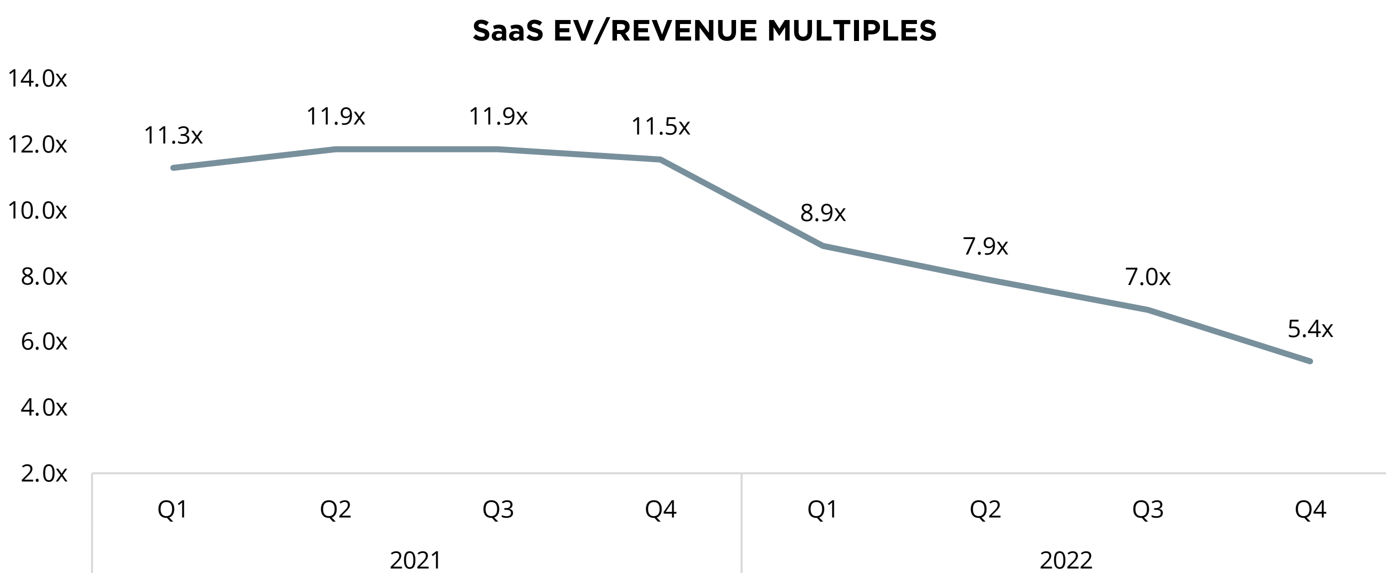
Sources: Refinitiv, PwC, S&P Global, FRED, Saw Grass Asset Management, Sifma, PIMCO

SaaS Overview

After seeing a record increase and all-time high in M&A activity in the SaaS vertical, 2022 trends slowed M&A activity. Following high numbers in 2021, Q4 2022 M&A SaaS deals declined to 148. High interest rates create difficult financing options for investors looking to buy SaaS companies. However, the 2022 deal count resulted in only a slight decrease compared to total deals executed from 2018-2020.



SaaS revenue multiples reverted to historical averages through 2022 after record high valuations and multiples were reached throughout 2021. Buyers in the sector were less willing to pay the record-high multiples as the year prior, becoming more risk-averse with market uncertainty, caused in part by higher cost of capital. The decline in multiples is expected to slow or reverse as acquirers gain a firmer grasp on the broader market.



Sources: PitchBook

Crewe Capital Advises on Private Equity Partnership for Barefoot Mosquito & Pest Control

Investment bank helps Barefoot find the right capital partner, Incline Equity Partners, to fuel business growth

SALT LAKE CITY — February 2, 2023 — Crewe Capital (Crewe), an independent investment banking, securities, and mergers and acquisitions firm, is pleased to announce it advised on the partnership between Incline Equity Partners (Incline), a Pittsburgh-based private equity firm, and Barefoot Mosquito & Pest Control (Barefoot or the Company), a leading provider of environmentally conscious pest control services, headquartered in Austin, TX. As the exclusive advisor to Barefoot, Crewe successfully managed the transaction between Incline and the Company, which will continue to give residents in Texas and beyond an effective and natural solution to mosquito and pest control.

“We are enthusiastic about our partnership with the Barefoot team,” said Brad Phillips, Managing Director at Incline. “Joseph and Jason have built a strong platform in a mosquito-friendly region, where demand is recurring and non-discretionary. There is a significant opportunity to enter new geographies and explore additional service offerings through a combination of strategic M&A and greenfield openings.”

Barefoot has established a trusted brand given its effective, natural pest control treatment solutions and best-in-class customer service. Barefoot was founded in 2011 by Joseph Barclay and Jason Revill, who bring decades of experience in the pest control industry.

“We were looking for a partner with experience growing exterior service companies that culturally aligned with our team, and Incline was the perfect choice for our next phase of growth,” said Jason Revill, Co-CEO of Barefoot. “We look forward to making investments in our marketing capabilities to expand our loyal customer base. Additionally, Incline’s resources will enable us to enhance our technician recruiting and training programs to maintain our standard of service as we grow. With the help of the Crewe team, we were able to find the right partner that we are excited to work with. I found Crewe’s professionals to be incredibly dedicated, proactive, professional, expert, caring, and considerate of our needs,” added Revill.

Michael Bennett, Founder and Managing Partner of Crewe Capital said, “We are very pleased about the partnership between Incline and Barefoot. Joe and Jason have created an incredible business, and now have the opportunity to continue to build upon their success with an experienced partner in Incline.”

Joseph Barclay, Co-CEO of Barefoot said, “I am very grateful to Crewe Capital for guiding us through the most impactful business decision of our lives. The Crewe team exhibited professionalism and competency while facilitating every stage of our new partnership with an excellent private equity firm.”

Crewe Capital is proud to support Barefoot Mosquito & Pest Control in the continued growth of its brand and mission to offer more natural and effective pest control solutions that are safer for individuals and communities.

FOR MORE INFORMATION REGARDING THE MARKET OR YOUR SPECIFIC INDUSTRY OR COMPANY PLEASE CONTACT US AT:

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