CREWE | Investment Banking

MERGERS & ACQUISITIONS MARKET UPDATE

Q3 2021

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Market Update

Q3 2021

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Market Overview

M&A activity continues at a record-setting pace as 2021 has already amounted to over $3 trillion in deal value and is projected to be one of the biggest years in history for number of deals likely to close. Rapid economic recovery has been a significant growth driver within the market. Real GDP grew by 6.3% in Q1 and 6.7% in Q2, realizing a YoY increase of 4.9% in Q3. Private equity continues to bolster M&A activity as firms sit on $829 billion in dry powder, generating a large imbalance of uncommitted capital. These investors are looking to rebalance their portfolios in the back half of 2021 and early 2022, taking advantage of a climate condition undeterred by possibilities of inflation and interest rate hikes.

In terms of economic-specific tailwinds, the Biden administration proposed an increase in the corporate income tax rate from 21.0% to 28.0%. Included in this proposal was a jump in the capital gains tax rate from 20.0% to 39.6% on those making $1 million or more annually. Although a bill has not yet passed, this proposal motivated sellers to close deals before the end of the year to avoid the tax hike. Corporate divestiture activity is anticipated to increase through the end of 2021 under the newly suggested tax system, adding to the supply of available targets. Coming off previous quarters of record fundraising and a looming government tax increase, a near-perfect market condition is bolstering M&A activity.

Additionally, the current near-zero interest rate environment has made debt financing a much more attractive option. Low-cost debt incentivizes buyers to take on additional leverage, providing groups with more capital and more flexibility in their acquisition strategies. Institutional loan issuance totaled $160 billion for Q3 2021, more than double that of the $70 billion issued in Q3 2020. Over the next five years, businesses are expected to increase their borrowing levels as sector revenue increases at an estimated 2.5%, annualized. In particular, revenue growth during the period is attributable to the steady interest rate normalization, a result of efficient economic activity and improved market conditions.

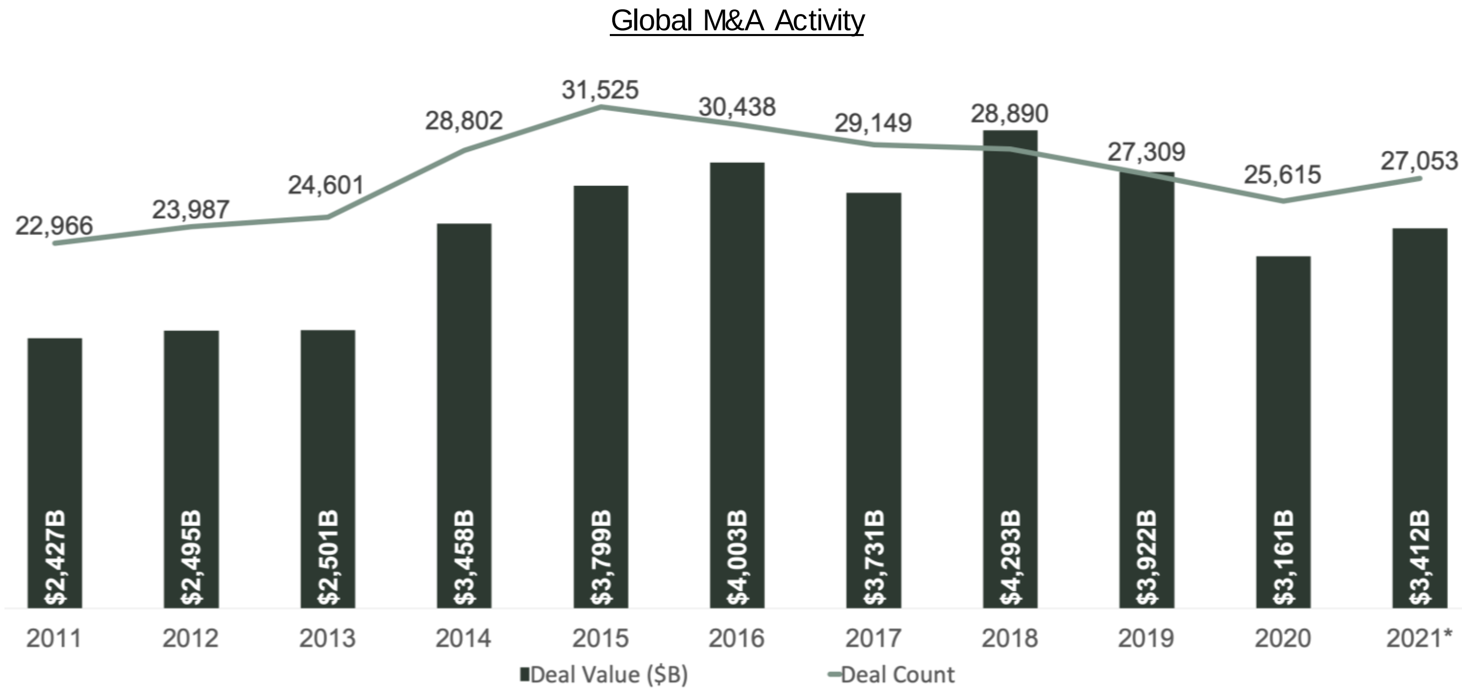
Regarding U.S. IPO activity, both SPACs and traditional IPOs have cooled off after a record Q1 in 2021. It is anticipated that activity in this space will return to more standard levels, especially SPAC listings, which are more than double historical averages so far this year.

Furthermore, the economic reopening took off in Q3 this year, 58.2% of Americans are fully vaccinated, and 67.5% have at least one shot. On August 23, 2021, the FDA fully approved the Pfizer COVID-19 vaccine, creating a positive outlook on unemployment rates reaching near pre-pandemic levels. The challenges of COVID-19 postponing transactions are no longer worrisome as markets reciprocate to positive economic forecasts.

With the current market conditions, interest rate environment, and potential tax proposals, we expect M&A momentum to accelerate through Q4, with some deals trickling into Q1 of 2022. The amount of dry powder in the market points to the willingness and ability of investors to deploy capital.

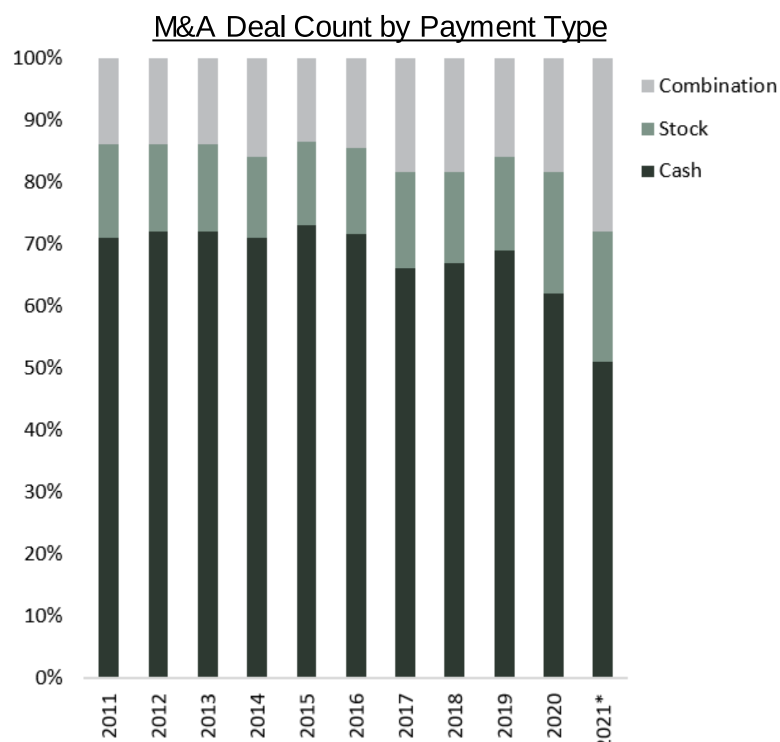
Sources: Capital IQ, Capstone Strategic: State of the Middle Market, EY, FRED Economic Data, Middle Market Growth, PitchBook, Preqin, Fitch Ratings

M&A Activity



Global M&A activity carried on at a record-setting pace with over 27,000 deals and $3.4 trillion in combined deal value expected to complete through Q3 2021. Of the reported deal value, $1.5 trillion took place in Q3. About 70% of all transactions took place in the middle market (companies with revenues of $100M-$3B). Key drivers of this increased activity are expected to persist with large amounts of dry powder, low interest rates, strong cash positions on corporate balance sheets, and high stock valuations. Economic worries attributed to COVID-19 have subsided, causing executives to feel more confident about pursuing acquisitions. The financial, consumer (non-cyclical), and technology industries have led the way with M&A activity growing 51.0%, 56.1%, and 87.5%, respectively.

Public equities have been on a bull run with most major indices in the U.S. and Europe up about 30% in the last 12 months. These equities have provided additional financing methods for corporate acquisitions. Nearly half of all deals are either paid for with stock alone or a mix of stock and cash. These methods of purchase are up from around 40% in 2020. In addition, large cash balances and cheap financing have boosted deal-making. Nonfinancial companies are sitting on $7 trillion in cash ready to deploy. Interest rates have remained low, allowing both financial sponsors and corporations to borrow more easily.



*2021 values are YTD
Sources: PitchBook, PwC, J.P. Morgan

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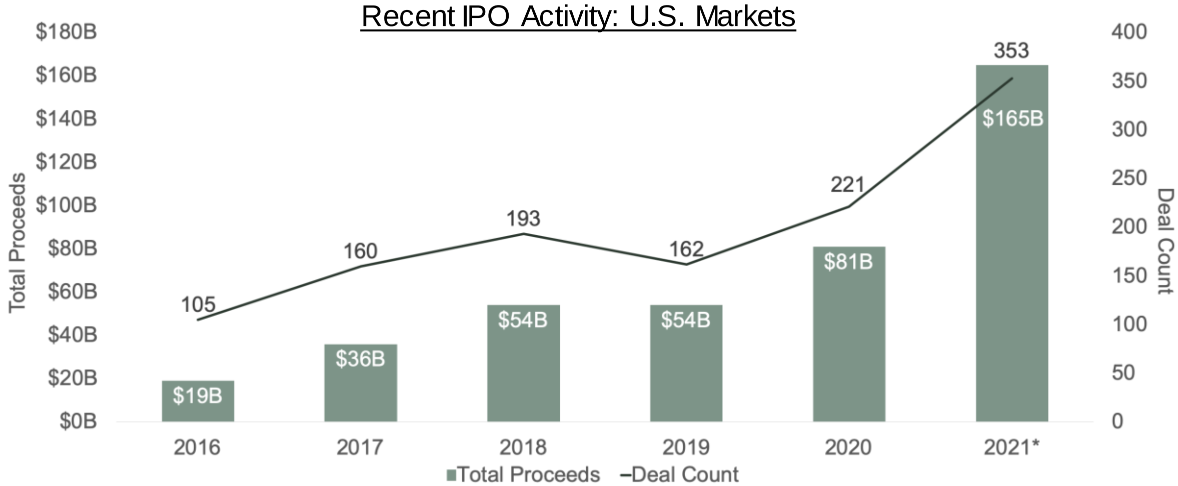
IPO Activity

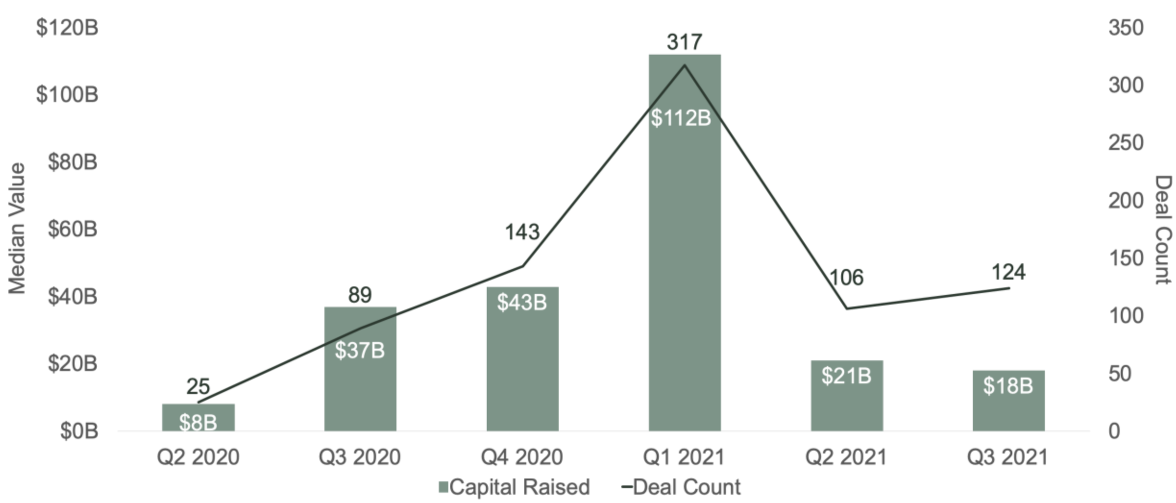
IPO markets continued their robust run in Q3 2021. Following strong Q1 and exceptional Q2 performances, U.S. companies are determined to take advantage of unique market conditions and high liquidity, creating a favorable fundraising environment. Sky-high valuations have incentivized private companies to consider the option of going public, while institutional investors sit on record levels of capital, seeking opportunities to invest. Year-to-date U.S. IPO deal flow is up 117% YoY, while proceeds are up 110% YoY. Global Q3 M&A activity is up 38% YoY. Favorable liquidity and government stimulus continued to support a red-hot IPO market. As of September 30, 353 IPOs were completed within the U.S., totaling over $165 billion. With one quarter left, 2021 U.S. IPO proceeds have surpassed 2020 totals by over 100%.

Recent IPO Activity: U.S. Markets



In contrast with the booming IPO market, it seems that recent SPAC activity has significantly cooled off since its record quarter at the beginning of 2021. Institutional capital began to flood into the SPAC market in late 2020, reaching its peak in Q1 2021. During Q1 2021, 317 SPAC deals went live, with a median size of $250 million. Moving forward, however, Q2 activity fell off, with only 106 deals completed, with a median value of $111 million. Explanations for this recent trend may include poor de-SPAC public market performance and incoming regulatory changes. Additionally, recent data shows an excess of SPAC sponsors trying to partner with a limited number of targets.

Recent SPAC Activity: U.S. Markets



*2021 values are YTD

Sources: PitchBook, Yahoo Finance, Renaissance Capital, Silicon Valley Bank, EY, Capital IQ

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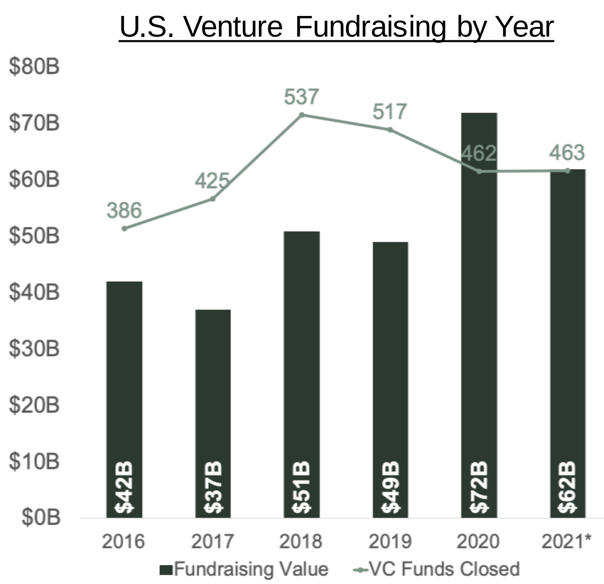
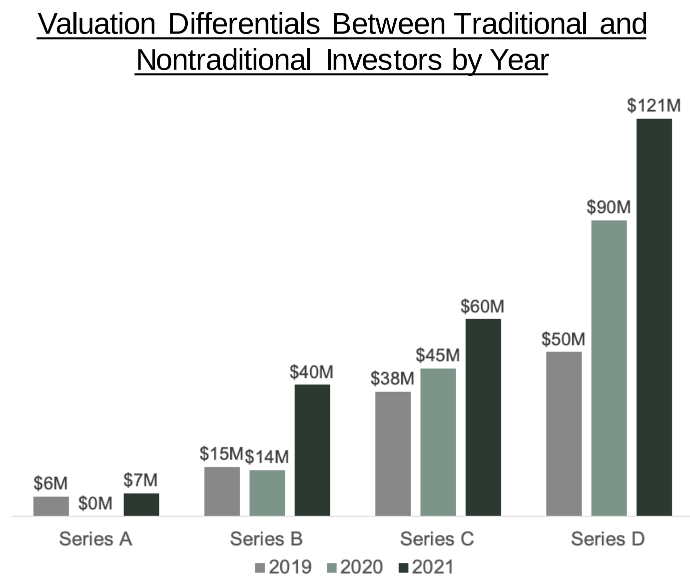
Fundraising

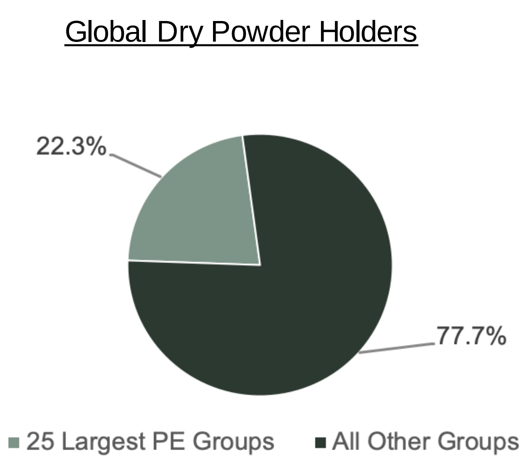
Venture Capital fundraising has been at all-time highs since 2019. For the first half of 2021, there have been $61 billion in venture funds raised, which is just $11 billion less than funds raised in all of 2020 and $12 billion more than 2019. If fundraising growth continues at this rate, expected total capital will be $110 billion. In addition, the amount of $1B+ funds has increased, equating to 47% of U.S. VC fundraising activity. These funds have deployed faster and subsequently returned quicker to investors.

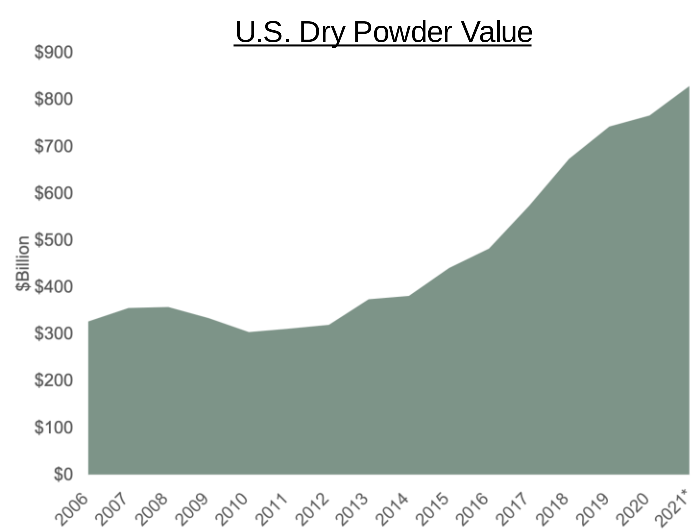




As of September 30, PE groups have raised a combined $238 billion across 295 new funds. While many factors contribute to the $238 billion, the most pressing drivers of increased fundraising include low interest rates, looming corporate tax hikes, increased desire for exposure to alternative investments, and a widening gap between multiples of public and private markets.

Global dry powder volume currently sits at a record $2.29 trillion. The largest 25 private equity groups account for nearly 22.3% ($509.9B) of total dry powder globally. The United States continues to dominate, with the 15 largest worldwide groups being American-based firms. 50% of global dry powder is currently in North America.





*2021 values are YTD

Sources: Capital IQ, Preqin, S&P Global Market Intelligence

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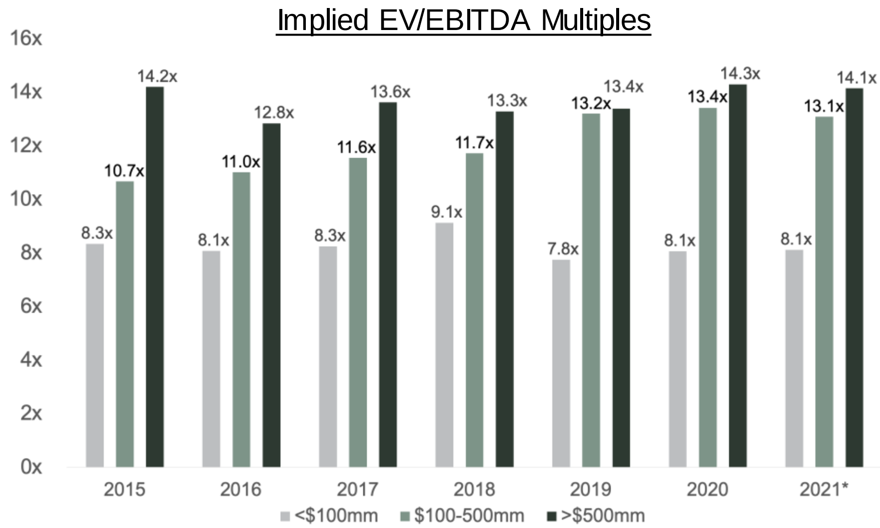
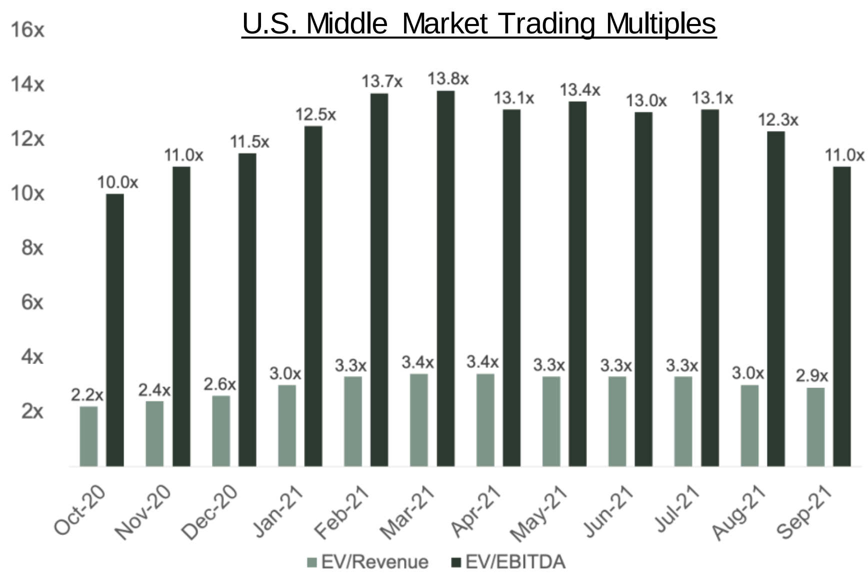
Multiples Overview

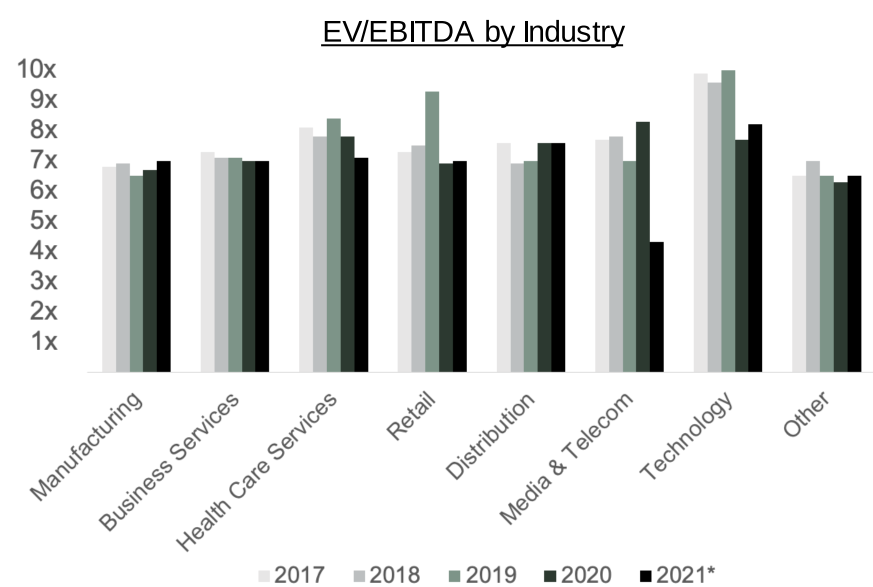
Median trading multiples for small-cap to lower middle-market (<$100M) buyouts have historically been close to 40% less than larger-cap acquisitions of companies valued over $500 million, and 30% less than transactions in the $100 million to $500 million range. Lower multiples for smaller firms make them more attractive for acquisition and are more advantageous for leveraged buyouts.





For middle-market companies trading in the public markets, median multiples have decreased slightly from their highs in March 2021. Higher EBITDA multiples in the latter part of 2020 and early months of 2021 were likely a result of companies still recovering from the COVID-19 pandemic. Multiples should continue to retract to slightly lower levels as earnings continue to improve.

The Technology and Distribution industries have seen the highest multiples so far in 2021 at 8.2x and 7.6x EV/EBITDA, respectively. Although transactions in the Technology sector have experienced the highest multiples, they have begun to fall from their highs in recent years, approaching their average from 2003-2016 of 7.1x.



*2021 values are YTD
Sources: Capital IQ, PitchBook

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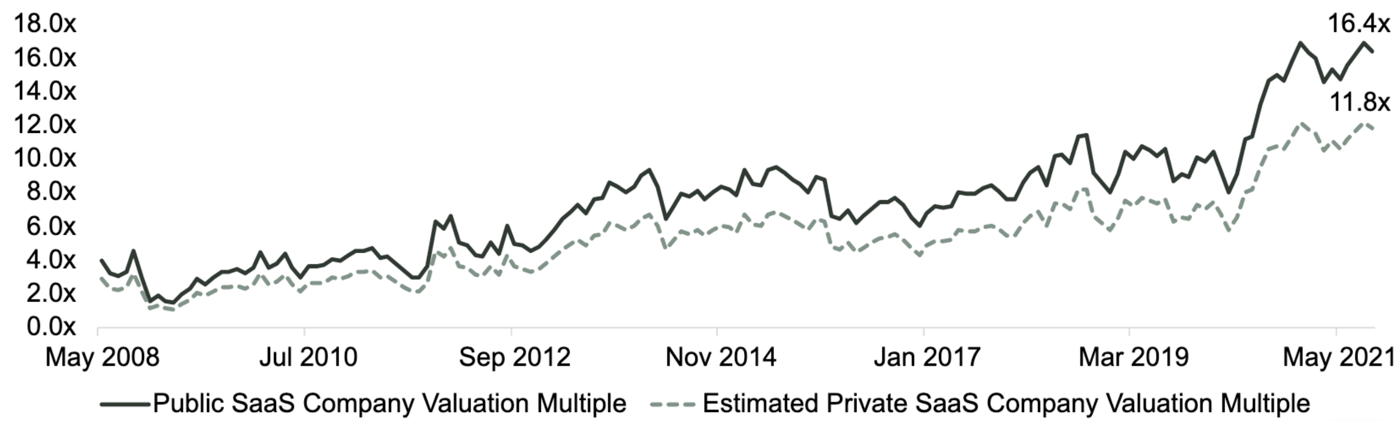
SaaS Overview

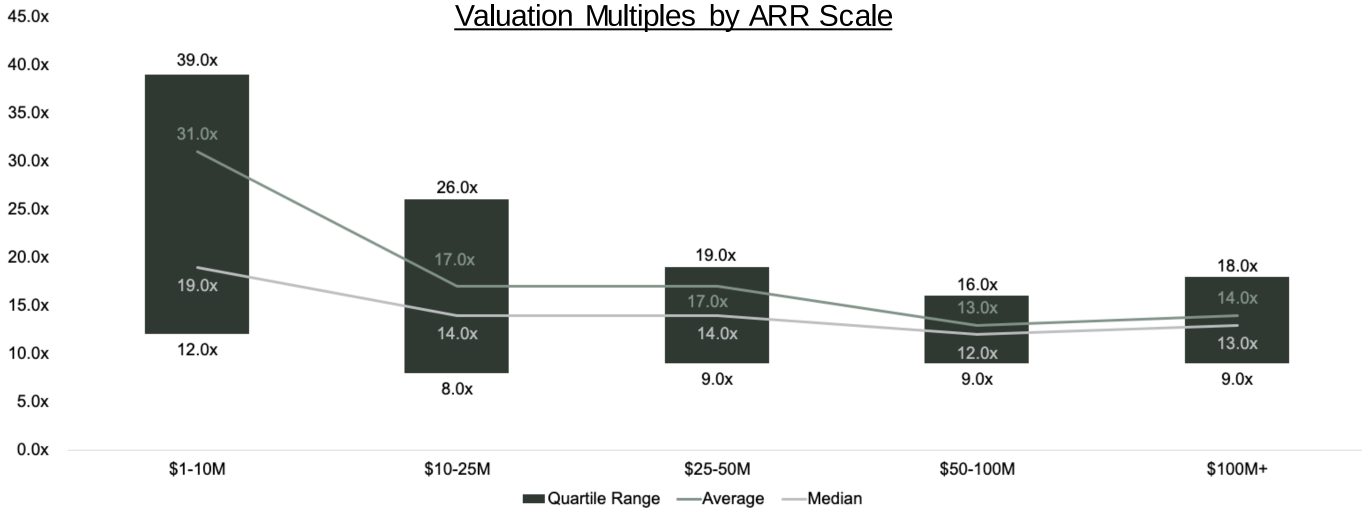
While M&A activity in the SaaS vertical was low at the start of 2020, there was a rapid surge of M&A activity by the end of the year following the anticipated changes on capital gains tax with the Biden administration. M&A recovery in late-2020 projected a highly bullish 2021, and the trend for median multiples for public and private SaaS companies continues on an upward trend. There are mild concerns regarding inflation, but SaaS is still projected to continue solid growth for the remainder of the year. There is a notable difference, however, between public and private revenue multiples for SaaS companies, as private companies typically trade at a 28% discount to their public peers, which has held relatively constant since early-2008. As of September 2021, public SaaS companies are valued at a median of 16.4x ARR, whereas private SaaS companies have valuations at 11.8x ARR, representing a 9.5% increase since Q3 2020.

SaaS Capital Index Valuation Multiples



The largest contributor to SaaS multiples for public and private companies is ARR scalability. For public and private SaaS companies, multiples increase with higher ARR growth, resulting in potentially inflated valuations for small, fast-growing SaaS companies. However, top-quartile performance means different things for different sized SaaS companies, as quartile ranges are not expected to remain large as companies grow, and growth rate variance compresses. Smaller companies with ARR between $1-10M see a 1.5x wider quartile range than companies with $10-25M in ARR and a 3x wider range than SaaS companies generating over $100M ARR.

Valuation Multiples by ARR Scale



Top 2021 Transactions

acucote inc

has been acquired by

FEDRIGONI

eLuma

formed a capital partnership with

LEEDS Equity Partners

ACTA

has been acquired by

HYDROJUG

Hyperice

Direct investment

PACS

Strategic advisory

HFW

has received an equity investment from

VSS

PROJECT ALPACA*

Leading Retailer of Trailers and Accessories

Sell-side advisory

PROJECT BOND*

Leading Manufacturer of Industrial Repair Products

Sell-side advisory

PRESS RELEASES

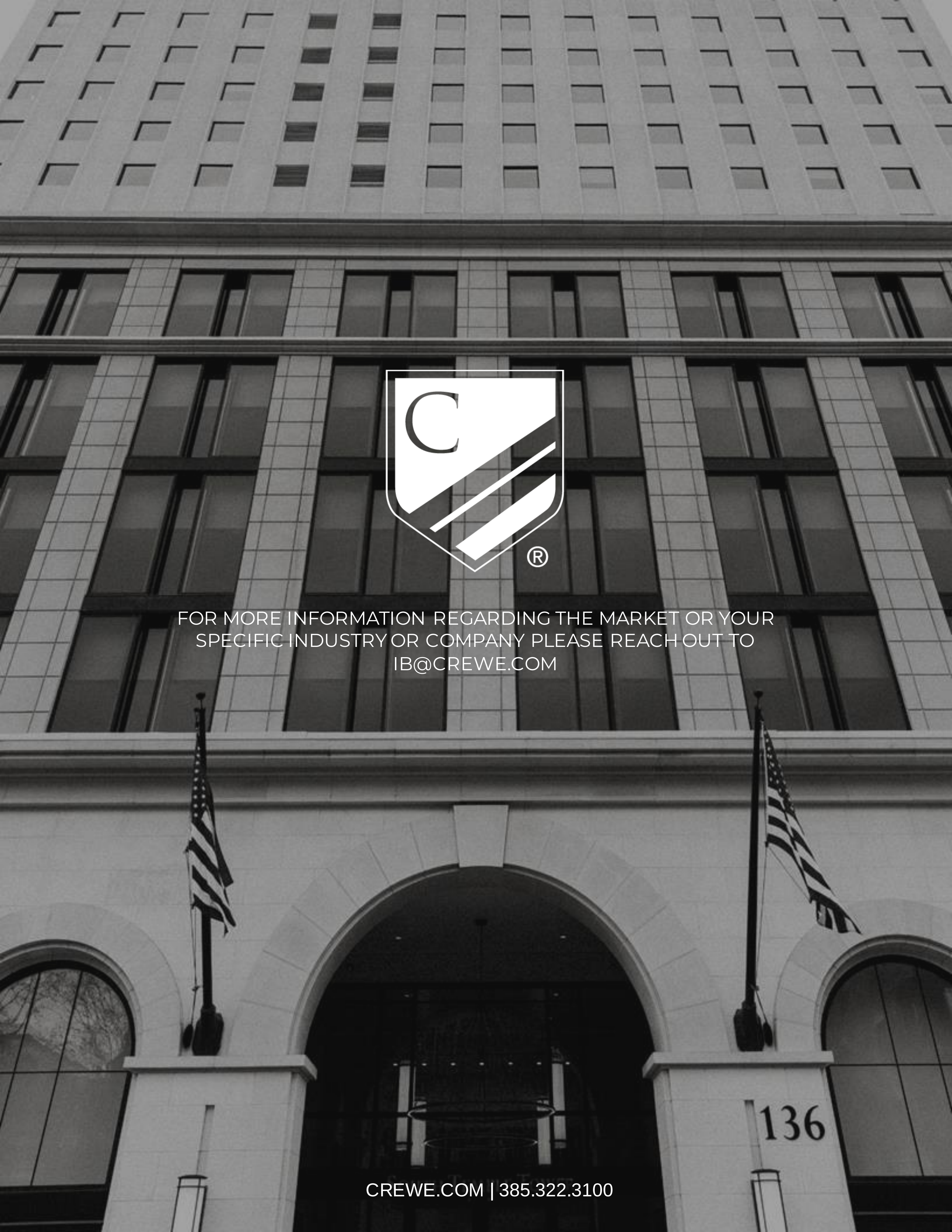
Acucote

eLuma

ACTA

HFW

**Companies are in the final stages of the transaction but have not yet closed*



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