Aramar

Capital Group, LLC

Deal Market Perspective

3rd Quarter 2022

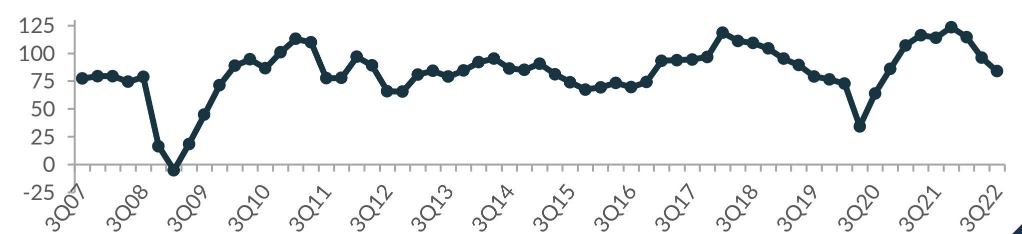
Economic Overview

Now that Giselle and Tom's situation has been amicably resolved and the U.S. midterm elections are behind us, we can all turn our full attention to the economy. The Fed is walking a tightrope trying to convince the world it is laser focused on tamping down inflation — as it is well documented that high inflation expectations beget high inflation — while not overdoing a tight monetary policy that might lead to a severe recession. Consumer demand remains strong, but it could fall off if rampant layoffs begin to occur (as is now happening at Twitter, Meta, Lyft, and certain other former highfliers) and food and gas prices keep rising due to war and geopolitics.

- The U.S. GDP increased at a 2.6% seasonally-adjusted annual rate in Q3 2022, an acceleration from the 0.9% drop seen in Q2[1]
- At the end of Q3 2022, the U.S. unemployment rate decreased to a post-pandemic low of 3.5%, as compared to 4.8% at the end of Q3 2021[2]
  - Total nonfarm payroll employment rose by 263,000 in September, with notable gains in leisure, hospitality, and healthcare
- The International Monetary Fund lowered its outlook for global economic growth again for 2022 and 2023 to 3.2% and 2.6%, respectively, far below the 6.1% expansion that occurred in 2021[3]
- U.S. consumer inflation, excluding energy and food, accelerated to a new four-decade high in Q3 2022, a sign that strong and broad price pressures are persisting[4]
  - The core CPI rose 6.6% in September from a year earlier, the biggest increase since August 1982; the jump raises the probability that the Federal Reserve will delay an anticipated slowdown in rate hikes and will lift rates to even higher levels next year than previously anticipated
- Ocean shipping rates have plunged 60% this year and are set to further ease for the remainder of the year and in 2023, according to international shipping companies and analysts[5]
  - A series of new ships will hit the water over the next two years with net fleet growth expected to exceed 9% next year and in 2024, as compared to projected container volume growth of only 2%[6]
- Supply-chain pressures eased over the summer, but the Federal Reserve Bank of New York's global supply-chain pressure index still stands near record highs, and a recent Goldman Sachs survey found that delays and backlogs remain a top economic concern for small-business owners[7,8]
- Lending, which is a barometer of economic health, jumped by 8% in Q3 2022; the continued borrowing, despite higher interest rates and growing economic uncertainty, is a positive sign[9]
- The U.S. consumer confidence index finished Q3 at 108.0, up from 98.4 at the end of Q2 2022, still well above its 15-year average[10]
- Over 80% of Americans in their prime working years had jobs in September, above the rate in the year before the pandemic, somewhat defying the claim that "no one wants to work anymore"[10]
- Business Roundtable's CEO Economic Outlook Survey, a composite index of CEO expectations for capital spending, hiring, and sales over the next six months, fell to 84.0 in Q3 2022, down from 96.0 in Q2, but still above its 19-year historical average of 81.5[11]
- While in-store sales continue to regain traction post-pandemic, e-commerce as a percentage of total retail sales declined 1.2% year-to-date in 2022 (for more on challenges in the current e-commerce environment, see the guest article by Treya Partners starting on page 6)[12]

U.S. Consumer Spending (Annualized)[1]

Business Roundtable's CEO Economic Outlook Index[11]



1. Bureau of Economic Analysis
2. Bureau of Labor Statistics
3. International Monetary Fund
4. U.S. Department of Labor
5. Freightos Data
6. Braemar Shipping Services
7. Federal Reserve Bank of New York
8. Goldman Sachs
9. Keefe, Bruyette & Woods
10. The New York Times
11. Business Roundtable
12. U.S. Census Bureau

Mergers and Acquisitions

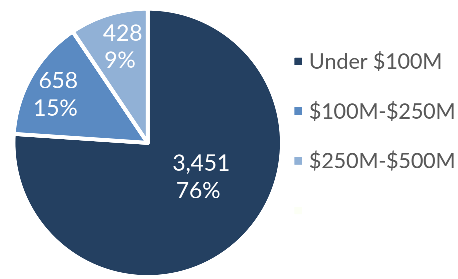
Aramar Capital Group, LLC

Given the state of the economy, whose precarious condition is being trumpeted across news media and political ads, it is not surprising that M&A activity has slowed. Acquirers often tend to their own houses first before taking on transaction-related due diligence and integration activities. That said, the cash on corporate balance sheets and in committed private equity (PE) funds remains lofty, many supply-chain issues are receding, and strategic acquisitions are an excellent opportunity to generate growth and efficiencies in an otherwise challenging environment.

- North American (N.A.) M&A value was $392.8B and volume was 2,967 in Q3 2022, representing a 54% decrease in value and a 35% slide in transaction count as compared with Q3 2021; however, dealmakers still are acting on opportunities despite volatility and valuation adjustments[1]
  - The deal value in Q3 is a correction from last year's frenzied activity; still, it is on track to surpass the pace set prior to the pandemic
  - Increased interest rates are leading to expectations of lower economic growth, as future earnings of companies are discounted at higher rates, resulting in somewhat lower valuations
- During the first nine months of the year, the value of global mergers and acquisitions announced by companies sank 34% to $2.8T as compared to the same period in 2021; that is the largest year-over-year drop since 2009, when M&A activity declined amid the global financial crisis by 42%[2]
  - Deal-making activity is expected to remain tepid overall during the fourth quarter compared with 2021, barring an improved economic outlook and lower inflation readings

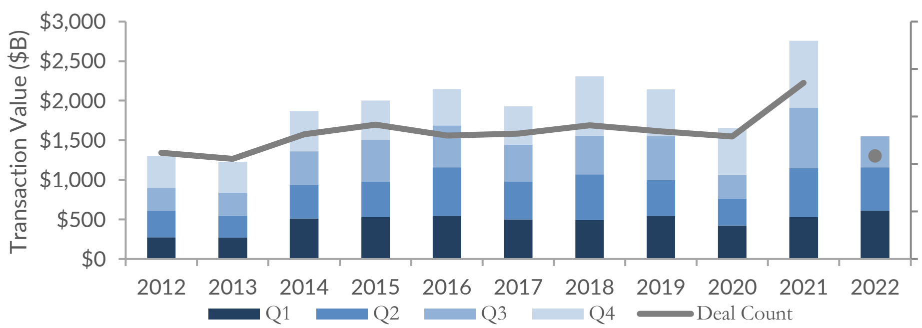
- M&A-related leveraged loan issuance decreased to $21.4B in Q3 2022, the lowest it has been in six quarters[1]
- S&P 500 company cash holdings, excluding financial institutions and utilities, were $1.5T in Q3, almost matching last quarter and continuing to provide strategic acquirers with ample capital to put to work[4]

LTM 3Q22 U.S. M&A <$500M[3]

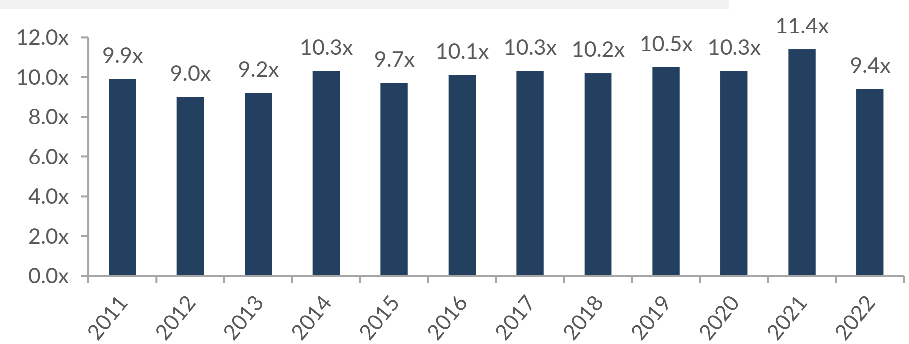


- Dealmaking in Q3 2022 was again dominated by smaller transactions, as 76% of the sub-$500M U.S. M&A market was accounted for by transactions under $100M[1]
- Cross-border M&A deal value in N.A. in Q3 2022 (N.A. M&A transactions with non-N.A. acquirers) fell 43.2% from Q3 2021 to $45.3B[1]
- The median global EV/EBITDA multiple for M&A transactions in the first three quarters of 2022 was 9.4x, a sizable decrease from the 11.4x multiple seen in 2021, mainly attributable to weaker expected earnings, higher interest rates, and general market trepidation[1]
- 17 mega-deals closed in Q3, with $142.2B of aggregate transaction value, making up 38.2% of the total M&A value, the lion's share of which was for deals in the big data/healthcare sector, including CVS Health's acquisition of Signify Health and Amazon's acquisition of 1Life Healthcare[1]

North America M&A Activity [1]



Global EV/EBITDA M&A Multiple[1]



1. *PitchBook*
2. *Refinitiv*
3. *Factset*
4. *S&P Capital IQ*

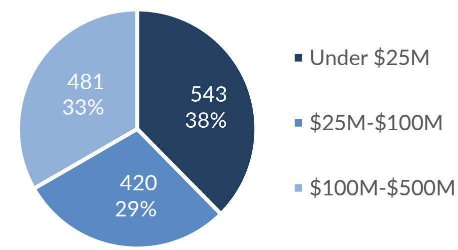
Private Equity

PE deal activity too has tapered off because of the economic environment, higher interest rates, and tighter bank lending. It also is not great optics in the minds of many PE fund managers to be aggressive in the face of an onslaught of bad news in the press. Yet, those same managers understand that it is precisely in challenging environments when deal competition is less intense and attractive opportunities arise. Key to this dynamic is the need for sellers with uncertain 2023 profits to understand and appreciate that acquirers are seeking to share some of the risk and often some of the upside too through post-closing contingent payments. The substantial amount of PE dry powder will ensure there is continued, albeit more moderate, deal activity.

- U.S. PE investment activity slowed in the third quarter of 2022, with 1,482 closed deals worth a combined $185.9B, representing a 32% decline in volume and a 47% decrease in value as compared to Q3 2021; deal activity finally felt the bite of higher interest rates that have been rising for nearly a year[1]
  - Q3 activity is still flat to slightly up when compared with the "old" normal of 2017 to 2019, which at the time was considered a blistering pace for U.S. PE dealmaking
- The PE deal count was running ahead of 2021's frenzied pace through the first seven months of 2022, but then hit a bit of a wall in the next two months, as the resilience of the industry and the enormity of its dry powder were overpowered by the uncertain economic climate[1]

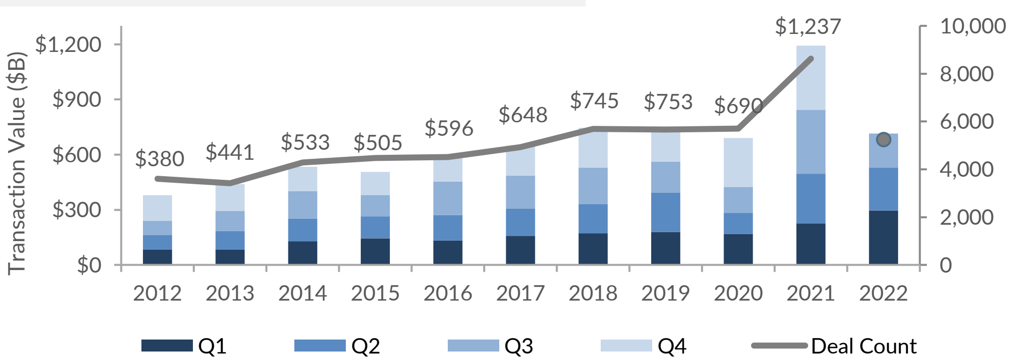
- For PE-led transactions between $10M and $250M, the average EV/EBITDA multiple was fairly flat at 7.4x, according to the most recently available quarterly data[2]
- Add-on investments continue to drive the overall U.S. PE market, accounting for 62.6% of all deals in Q3 2022[1]

Q3 2022 U.S. PE Deals <$500M[1]

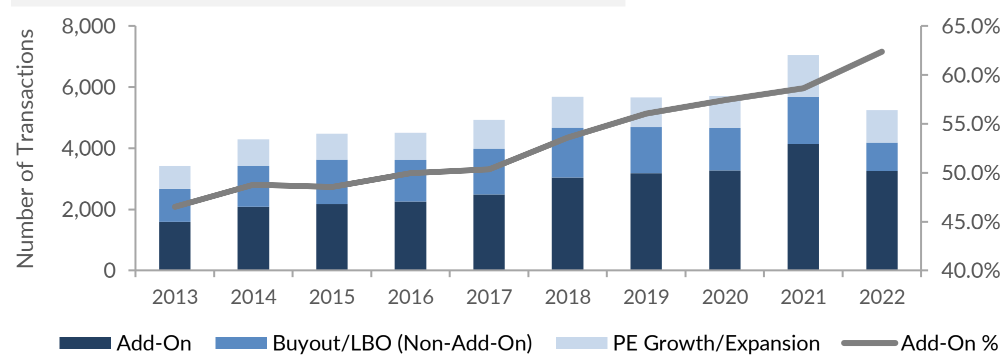


- Global PE dry powder has shrunk to $1.2T, down from its previous record of $1.8T at the beginning of 2022[3]
  - This peak followed an impressive surge in PE investing alongside continued pandemic financial market uncertainty
  - Due to macro-economic conditions, some managers have curtailed their deal making activity, which is expected to slow or reverse the trend of declining dry powder as fundraising outpaces investment
- U.S. PE fundraising dropped in the third quarter of 2022, with a combined $82.8B raised across 105 funds, a 65% decrease in capital raised and a 64% reduction in the number of new funds raised compared to Q3 2021[1]
- Exit activity by deal enterprise value is down 70% year-over-year; like last quarter, falling valuations in public and private markets have continued to influence financial sponsors to choose to hold many of their longer-term portfolio companies rather than sell them for less favorable prices[1]

U.S. Private Equity Deal Flow[1]



U.S. Private Equity Deal Activity by Type[1]



1. *PitchBook*
2. *GF Data*
3. *Preqin*

Equity and Debt Capital Markets

Equity markets have seesawed as investors toggle between pessimism about the economy and optimism that markets are near a bottom. The IPO market remains open to only a limited number of recognized issuers, so has not been a viable exit vehicle for PE and venture capital (VC) funds. VC funds have been less active, though have raised a significant amount of capital that needs to be deployed, with the current focus being on earlier-stage companies for which valuations are more modest. Debt markets have tightened, as lenders are being more judicious because of the economic environment.

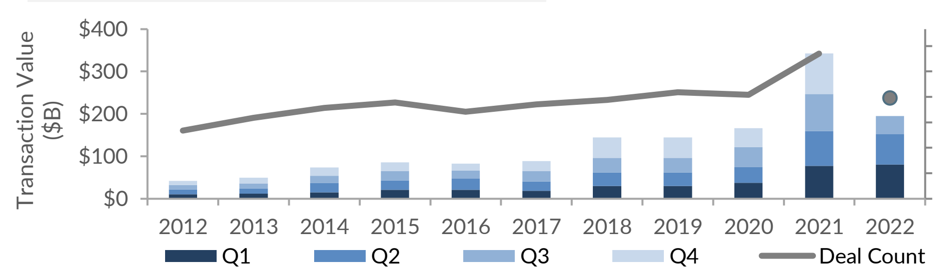
Equity Markets

- IPO momentum continued to abate in Q3, resulting in a considerable decline in both deal numbers and proceeds; in aggregate, year-to-date (YTD) 2022 saw 992 global IPOs raising $146B, decreases of 44% and 57%, respectively, on a year-over-year basis[1]
  - Companies and investors were faced with mounting macro-economic challenges, market uncertainties, increasing volatility, and falling global equity prices, limiting their enthusiasm for IPOs
  - The technology sector continues to lead the IPO market, although the YTD average deal size came down from $261M to $123M year-over-year
- After closing out 2021 within 1.0% of its all-time high, the S&P 500 continued to struggle in Q3 2022, ending 18.2% below its year-end level[2]
- Earnings growth for S&P 500 companies in Q3 slowed significantly, with a blended growth rate of 2.2%, down from 4.8% in Q2 2022[3]
- The share prices of companies that listed publicly in Q3 — IPOs, direct listings, and SPACs — were off an average of 8.9% since their listings through October 31st, a sizable drop from Q2, which saw a 6.3% increase[4]
- U.S. VC deal value fell 52.2% to $43.0B in Q3 2022 and deal count decreased 30.0% to 3,076 deals relative to Q3 2021[5]
  - Q3 2022 saw a less resilient VC landscape compared with the first half of the year; deal activity across all stages showed signs of distress and there were fewer exits than at any time in recent years
- The value of startup exits — a sale or public offering — plummeted to $14.0B in Q3 2022, a 93% drop on a year-over-year basis[5]
- Investors allocated $18.1B to seed- and early-stage startups in Q3 2022, a 27.8% decrease from Q3 2021[5]
- The YTD capital raised by VC firms through the end of Q3 in 2022 was $150.9B, exceeding the the full-year 2021 record of $147.2B by 2.6%[5]
  - 62% of that total went to 6% of funds; while overall fundraising figures are strong, established managers received the lion's share of commitments, while emerging GPs struggled
- SPAC IPO activity also plummeted in Q3 2022, with 35 IPOs worth a combined $1.0B, representing a 74% decrease in volume and a 96% decline in value as compared to Q3 2021[5]
- 800 of the 1,288 SPACs raised since 2020 remain without a closed deal[5]

Debt Markets

- The 10-year yields at quarter-end on U.S. investment-grade and high-yield bond indices rose dramatically with the tightening of monetary policy, earning investors 3.83% and 9.43%, respectively[2]
  - In Q3, the worst bond rout in a generation carried the yield on the 10-year U.S. Treasury note above 4% for the first time in more than a decade[6]
  - Mounting volatility in government bond markets is intensifying fears on Wall Street that this year's wild swings in the world's safest assets could further destabilize already-rocky financial markets[6]
- For PE-led transactions between $10M and $250M, the average total debt/EBITDA multiple was 4.0x, according to the most recently available data, in line the 3.9x to 4.1x range that existed pre-pandemic[7]
- N.A. companies will have to come up with at least $200B in 2022 and 2023 to cover rising interest expenses[8]
- Funding of CLOs, which are the biggest buyers of junk-rated corporate loans PE firms use to buy firms, plunged 97% through Q3 2022 from last year's level to $1.3B, in part due to fallout from the U.K. financial crisis[6]

U.S. Venture Capital Deal Flow[5]



1. Ernst & Young
2. S&P Capital IQ
3. FactSet
4. IPO Scoop
5. PitchBook
6. The Wall Street Journal
7. GF Data
8. Fitch Ratings

E-commerce: Long-term Revenue Impact of Holiday Peak Performance

Poor performance during the holiday peak period for e-commerce companies can impact revenue far beyond the holiday season, with the primary driver of customer experience being timely order fulfillment. Historically, November 28th to December 24th marked the peak shipping season for small parcel carriers across the globe. A 2021 study found it now begins earlier and lasts longer, with 35% of consumers starting their holiday shopping earlier and 45% reporting they finished their shopping before December.

It is estimated that approximately three-billion packages are shipped across carriers' networks during this time period. The most crucial statistic during the peak season is on-time performance.

Challenges and Issues

E-commerce companies looking to out-perform their competitors must now manage a volatile supply chain, challenges with maintaining sufficient inventory, and the rising cost of shipments. As the peak holiday season approaches, the shipping experience will be more important to companies' bottom lines and brand reputations than ever before. Research by Oracle found that 74% of senior executives believe that good customer experience directly impacts customer retention.

According to SAP, 72% of customers will share a positive experience with six or more people. On the other hand, if customers are not happy, 13% of them will share their experience with 15 or more people. The challenge here lies in the fact that, in most cases, customers don't tell a supplier they're unhappy. In fact, only 1 in 26 unhappy customers actually complains.

With increased competition and the knowledge that the majority of unhappy customers do not provide feedback, the need to win the customer experience battle is elevated for the e-commerce sector.

In order to exceed customer expectations during the 2022 holiday season, e-commerce companies must address many challenges, with an emphasis on the customer experience once the package leaves their facility.

Here are some common challenges and issues facing the e-commerce sector this holiday season:

- Inflated shipping costs being passed on to the customer due to higher demand on the carriers' networks and increases in fuel costs
- Insufficient or delayed planning internally and with carriers and 3PL providers, resulting in an inability to meet customer demands
- Capping of capacity by carriers resulting in a backlog of orders, warehouse floor space challenges, and logistical challenges managing backlog and new volume
- Lack of a back-up plan; *e.g.*, how does one route packages away from a bottleneck in the event of a major regional challenge, with the Southern California and New York metro regions especially prone to bottlenecks
- Insufficient carrier diversity planning and contracting prior to the peak
- Antiquated systems and poor integration for tracking shipments
- Lack of support and an escalation path for resolving customer issues related to shipments
- Inadequate processes and systems for handling higher volumes of returns
- Poor data and inadequate tools to forecast the cost per shipment during the holiday peak, resulting in lower margins as e-commerce sellers absorb a higher cost or checkout abandonment when shipping costs are too high

If these types of challenges and issues are not proactively addressed, both the immediate and long-term impact to revenues and brands can be catastrophic. The greatest impact of holiday peak shipping issues is a loss of revenue that extends beyond the holidays. A poor customer experience during the stressful holiday season often results in orders being cancelled, the loss of repeat customer orders, and damage to reputations and brands stemming from social media posts by dissatisfied customers.

A Guide to Planning for Peak Season Small Parcel Shipping

Get Ahead

Meeting consumer expectations for delivery is key to building customer loyalty, as 79% of consumers are more likely to make a second purchase from a merchant after a positive delivery experience.

E-commerce: Long-term Revenue Impact of Holiday Peak Performance

The first step, when it comes to peak season parcel shipping, is to get ahead. It is important to shore up one's labor strategy by getting a handle on demand forecasting and inventory planning as well as liquidating inventory that is not turning.

For some parties, peak season prep includes establishing and deepening parcel relationships and negotiating better pricing. It is also important to continually monitor processes and systems internally to ensure efficiencies from when an order is placed on a website all the way through delivery.

Capitalize on Available Resources

There are subject matter experts, software, carriers, and third-party providers to take advantage of to develop a roadmap for a more successful small parcel program. Some things to consider when looking for additional resources when it comes to small parcel shipping are:

- PE firms that can leverage relationships to assist portfolio companies
- Third-party industry experts
- 3PL partners
- Carrier partners like UPS, FedEx, and DHL
- Regional carriers

Have a Plan!

As we close in on peak season parcel shipping, having a plan can be the best way to ease concerns for customers and internal workforces. One of the most critical ways to set expectations with customers is to collaborate with an internal or external marketing team to advertise delivery commitments and promotions.

There is also planning around facilities or warehouses that needs to take place. A recent study reported that 57% of consumers surveyed made a purchase last year from a retailer they had never done business with before. And 37% of those shoppers did so because their first-choice retailer was out of stock.

Does your facility have enough space for a potential increase in product warehousing needs? Is your carrier aware of the increased need for drivers for pickups or drop-offs?

If there is an issue with pickup and drop-off times, would adding an additional carrier help with the issues and needs of the facility? These are three of the questions that may need to be answered to ease some of the tension around a facility or warehouse and the carrier as the holiday peak season approaches.

Unforeseen circumstances are also in the mix when planning for peak season. Are you in a climate that experiences heavy snow in the fall/winter months? What if a facility needs to close for power outages or maintenance issues? Asking "what if?" questions around parcel-related needs can help with finding solutions and having a backup plan if issues were to arise.

When warehouse vacancy rates are low, it's very important to distribute inventory across multiple warehouses, providing a smaller footprint in expensive coastal markets. When looking for an alternative to Southern California, moving just a little further north into Central or Northern California is likely to unearth more available space. To avoid the West Coast all together, the port of Houston is an attractive alternative and container volume is on the rise there. Texas has a large population, and its central location reduces long zone shipping across the country. On the East Coast, there is higher capacity and excellent ground shipping coverage in the Tennessee, Virginia, and Atlanta markets.

Planning for both increased demand and unforeseen circumstances is critical. Consider having multiple warehouses available to ship from or ship to for returns. Or evaluate ramping up productivity within a certain warehouse where demand is going to be amplified.

Purchasing, Delivery Execution, and Customer Service

The last mile is quickly becoming the most important touchpoint in the customer experience and is often the area over which a merchant has the least amount of control. Overall, the shipping experience is becoming a larger pain point for both the merchant and the online shopper.

Data show that the top reason a shopper will invest time to leave a negative review is if a package was damaged or never arrived. Among the top five reasons for leaving a bad review is that the shipment was delayed or took longer than expected.

When talking about the holiday peak season shipping, one aspect that is often overlooked is the importance of the returns experience. Having a seamless and easy returns process, along with a quality customer service experience, is valuable. From when an e-commerce customer adds a product to his or her cart, the experience from that point through delivery and a potential return is critical for customer retention and loyalty, and positive small parcel shipping experiences are a key part of the customer experience.

Alongside customer satisfaction with purchasing and delivery, the customer service and returns processes need to be strong in order to maximize customer satisfaction. Plan for returns the same way you are planning for delivery of your products, as this will also ease concerns for when peak season comes around.

About the Author:

Treya Partners is a management consulting firm specializing in procurement value creation, strategic sourcing, and spend management advisory services for private equity, corporate, and public sector entities. Treya holds the first and largest small parcel group purchasing organization (GPO) with UPS to deliver savings for private equity firms and their portfolio companies through a volume-leveraged program.

Differentiation

Aramar is a boutique investment bank focused on providing merger, acquisition, and strategic private placement services; we are unique among our investment banking peers in that we:

- Focus on middle-market transactions; these transactions are a priority, not a default for when larger deals are dormant
- Have significant transactional expertise
- Provide senior-level attention
- Have a proprietary marketing process that follows a comprehensive approach tailored to each buyer or investor candidate, rather than a typical generic approach utilizing blast teaser e-mails and other automated contacts

Services

Aramar offers a highly focused set of corporate finance services to assist our clients in conceiving, defining, executing, and optimizing their objectives:

- Mergers and acquisitions
  - Negotiated sales of closely-held companies
  - Corporate and private equity firm divestitures
  - Leveraged and managed buyouts
  - Buy-side advisory
- Private placements and recapitalizations
- Fairness opinions, valuations, and financial advisory

Clientele

Aramar focuses on providing high-quality, high-touch services to middle-market clients

- Our M&A transactions range in size from approximately $10 million to $250 million and strategic private placements range in size from approximately $10 million to $100 million
- We provide the high quality of service and substantial transactional experience offered by a major national investment bank, but to a clientele that either is too small for, or cannot receive, the proper level of attention from a larger investment bank, or would receive lesser services and capabilities from a business broker, consultant, or smaller investment bank

Team

Aramar has assembled a unique team of professionals with a comprehensive and attractive mix of skills and backgrounds

- Significant investment banking experience, including stints at many other prominent financial services firms
- Entrepreneurial, managerial, and ownership experience that sets apart Aramar's "principal" perspective from that of most investment banks; our team members have founded, sold, and merged our own companies; acquired businesses; and acted as officers and directors of both public and private enterprises
  - As such, we can relate more closely to our clients and better advise them, at the same time as ensuring senior-level investment banking attention

380 Lexington Avenue, 4th Floor • New York, NY 10168 • (212) 708-0700