Aramar
Capital Group, LLC

Deal Market Perspective

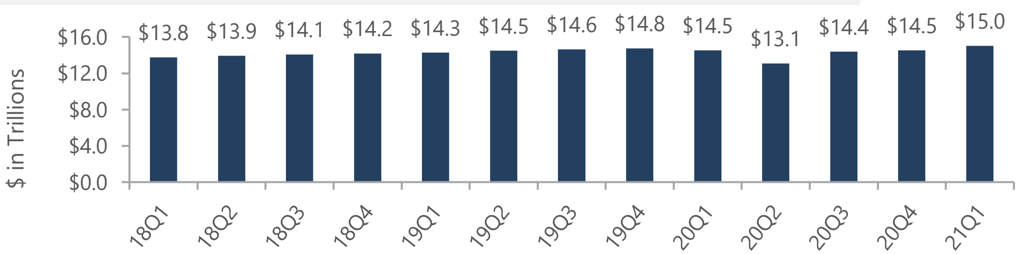
1st Quarter 2021

Economic Overview

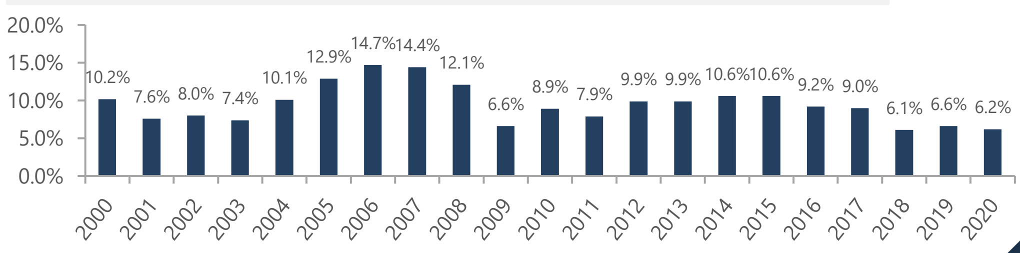
The U.S. and global economies are continuing to rebound from the havoc wreaked by the Covid-19 pandemic, largely propelled by government stimulus payments and relatively low interest rates (and the resilience of Americans!). The strong infusion of cash into the U.S. economy looks like it will carry on given the potential infrastructure bill and the Fed's near-zero interest rate policy and continued bond buying. Hopefully, the rising percentage of the world's population that is vaccinated will accelerate, the labor market will keep improving, and inflation will be held in check despite the cash surge, though the prevailing global supply chain issues (discussed in the guest article by EY toward the end of this report) and steep commodity price increases may run interference along the path to full recovery.

- U.S. GDP grew at a 6.4% seasonally-adjusted annual rate in Q1 2021, driving it to within 1% of its pre-pandemic peak reached in late 2019[1]
- The U.S. unemployment rate declined to a post-pandemic low of 6.0% at the end of Q1 2021, as compared to 6.3% at the end of Q4 2020[1]
  - This rate overstates the market's healing, as an expanded measure that adjusts for misclassified workers and those on the sidelines shows that the "real" unemployment rate was 9.1%
- Unlike past recessions, the average U.S. household became richer because of stimulus payments, reduced spending due to Covid-19, higher savings, and stock market gains; the aggregate household net worth swelled to $122.9T in 2020, up from $111.4T at the end of 2019[1]
- Fed officials have indicated that they do not expect to raise interest rates until 2024 at the earliest and will continue to buy bonds, purchasing at least $80B of U.S. Treasuries and $40B of agency MBS per month
- The combination of above-trend income and below-trend spending has created an estimated $1.8 trillion of extra disposable personal income in the U.S. since the beginning of the pandemic[2]
- Global shipping costs have surged by more than four times the mid-2020 rates due to a multitude of forces, including stronger-than-expected consumer demand as vaccines take hold and restrictions ease, temporary business closures due to Covid-19 infections among employees, backlogs and congestion at major shipping ports, the temporary closure of the Suez Canal, container shortages, and weather-related problems[3]
  - 44% of small businesses, which typically have less sophisticated purchasing departments than larger corporations, reported temporary shortages or other supply chain problems in March[4]
- Business Roundtable's CEO Economic Outlook Survey, a composite index of CEO expectations for capital spending, hiring, and sales over the next six months, was 107.2 in Q1 2021, up 21.0 points from Q4 2020
  - CEOs raised their U.S. GDP growth estimates to 3.7%, a 1.8 percentage point increase from their previous projection
- The U.S. consumer confidence index rose sharply in April to 121.7, marking the fourth straight month of gains as more vaccinations and stimulus payments were rolled out and businesses more fully reopened[5]
- The U.S. housing market is 3.8M single-family homes short of what is needed to meet surging demand, which has led to a 15-year high in home price growth[6]
- Corporate income taxes have been declining as a share of total federal tax receipts (to 6.2% in 2020) and as a share of total GDP; increasing these taxes will be a focus of the Biden administration[7]

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



U.S. Corporate Income Taxes as a Share of Federal Tax Receipts[7]



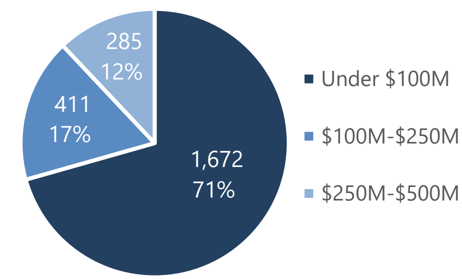
1. *Federal Reserve Bank of St. Louis*
2. *Harvard economist Jason Furman*
3. *S&P Global Market Intelligence*
4. *Vistage Worldwide*
5. *The Conference Board*
6. *Freddie Mac*
7. *Office of Management and Budget (2000-2019) and Bureau of Economic Analysis (2020)*

Mergers and Acquisitions

The U.S. M&A market and associated purchase price multiples continue to be robust, as the cash held by companies has reached new highs and the capital held by investment firms remains near record levels. Acquirers have adjusted well to the due diligence constraints imposed by the Covid-19 pandemic. And the credit markets remain open and eager for deals. The outlook for the balance of 2021 is quite good in terms of transaction activity, especially with the prospect of higher U.S. capital gains taxes likely causing near- and mid-term domestic sellers to accelerate their sale plans to beat any tax hikes.

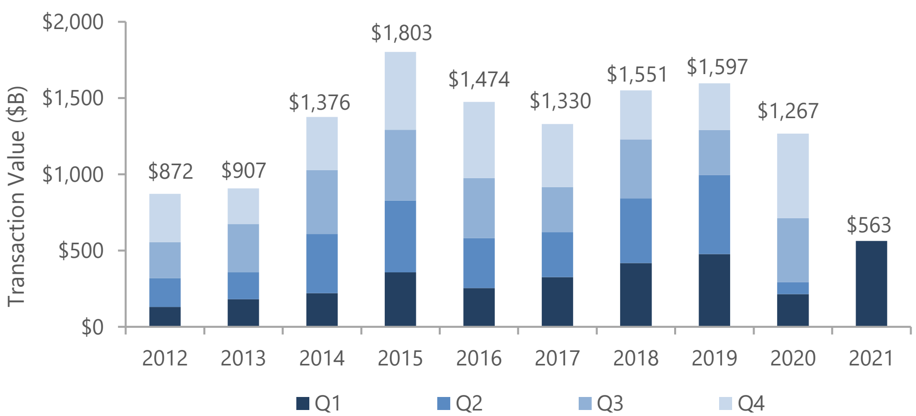
- U.S. M&A activity sustained its ferocious pace in Q1 2021, with 1,595 deals worth $563.2B; this represents the second quarter in a row that M&A activity by value has reached an all-time record[1]
- Global M&A activity in Q1 2021 reached $1.16T, making it the most active annual opening quarter on record[1]
  - Cross-border deals were a significant contributor to global M&A activity, hitting a first-quarter record of $516.6B and nearly returning to historical averages of more than 44.4% of total deal value
- S&P 500 company cash holdings, excluding financial institutions and utilities, hit a record $1.9B, according to the most recently available data[2]
- SPACs continued to drive the surge in M&A activity in the U.S., accounting for 79 business combinations worth $165B in Q1 2021, up 25% compared to all of 2020[1]
- There were 29 public company corporate divestitures in the U.S. worth $50.3B in Q1 2021, breaking the previous dollar value record of 34 divestitures worth $49.0B in Q2 2007[1]

LTM 1Q21 U.S. M&A <$500M[5]

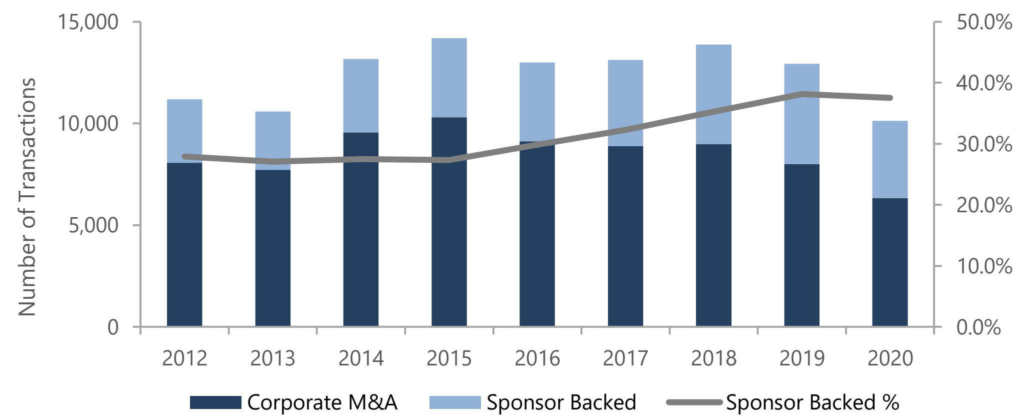


- North America accounted for 54.4% of global deal value, its highest in 14 years, and a sharp turnaround from Q2 2020 when it plunged to 21.5%[1]
- The median U.S. middle-market M&A EV/EBITDA multiple in Q1 2021 was 8.8x, down slightly from Q4 2020, but above the 12-month average[3,4]
- Buyout multiples in Europe are now at seven-year lows, while prices across the Atlantic are experiencing exactly the opposite[5]
- Due to the proposed corporate tax changes – increasing the top federal capital-gains rate from 23.8% to 43.4% and eliminating the carried-interest tax advantage – business owners are expected to fast-track sale processes to close deals in 2021 and investment firms will be less incentivized to hold investments for more than three years[6]

U.S. M&A Activity[1]



North American PE vs. Corporate M&A Deal Activity[5]



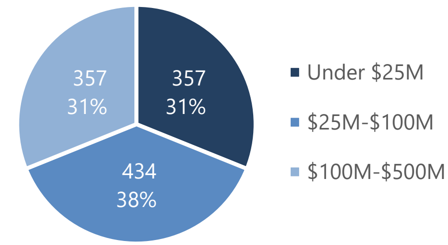
1. *MergerMarket*
2. *S&P Global Market Intelligence*
3. *FactSet*
4. *These multiples reflect prices paid for mainly large public companies and do not account for smaller private company transactions that tend to change hands at much lower multiples*
5. *PitchBook*
6. *The Wall Street Journal*

Private equity (PE) transaction activity remains very active … so active that many PE firms are encountering bandwidth issues that are limiting their ability to review opportunities. The record-breaking SPAC capital seeking acquisition targets is presenting a source of competition for larger deals, but it is being offset by the huge amount of so-called dry powder and the healthy inventory of companies in the market, which may very well jump further given the potential capital gains tax increase. PE firms have had particular success with add-on acquisitions, as they provide the opportunity for synergies that can support both higher offers and greater investment returns.

- There was $1.9T in PE dry powder globally at the end of Q1 2021, meaning that acquirers will continue to aggressively seek opportunities to deploy their ample capital[1]
- U.S. PE investment activity in Q1 2021 totaled $203.0B across 1,763 deals, representing a year-over-year increase of 20.8% and decrease of 16.8%, respectively[2]
- The overarching trend in PE is for managers to specialize and focus on certain sectors, with the proportion of specialist firms in the U.S. up 50% over the past decade[2]

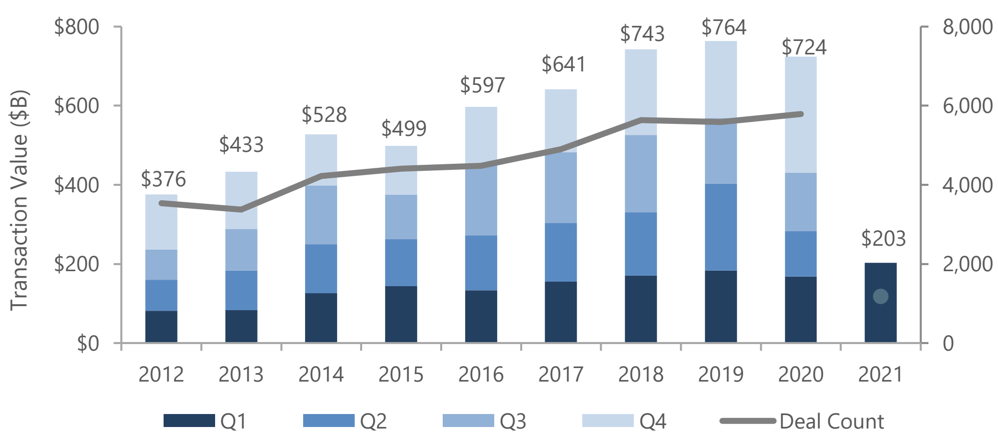
- In Q1 2021, U.S. PE deals in the $25M to $100M range accounted for 37.8% of all deals below $500M, the greatest proportion in over a decade[2]
- Add-on investments continue to drive the overall U.S. PE market, accounting for 74.6% of all deals in Q1 2021, the largest percentage ever[2]
  - The B2B sector contributed 37.7% of the total add-ons in the quarter

Q1 2021 U.S. PE Deals <$500M[2]

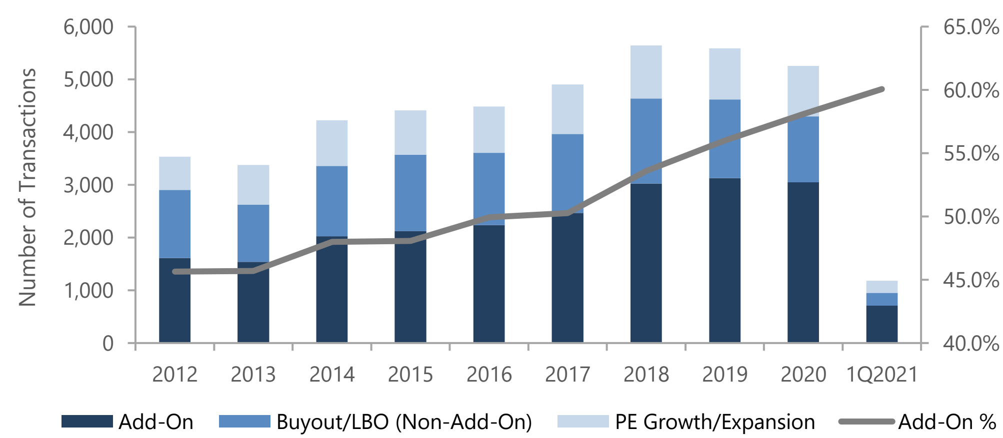


- For PE-led transactions between $10.0M and $250.0M, the average EV/EBITDA multiple was 7.0x, according to the most recently available quarterly data, above the 6.7x average during the previous trailing 12-month period[3]
- Through the first six weeks of 2021, PE-owned companies borrowed $4.7B to pay for dividends or debt restructurings, the second highest amount since 2000, when the data began being tracked[4]
- Despite the pandemic, bankruptcy filings by PE-backed companies declined to 147 in 2020, down from 201 in 2019[2]
- PE fundraising is expected to surpass $330B in 2021, setting an all-time record[2]

U.S. Private Equity Deal Flow[2]



U.S. PE Deal Activity by Type[2]



1. *Preqin*
2. *PitchBook*
3. *GF Data*
4. *S&P Global Market Intelligence*

Debt and Equity Capital Markets

U.S. equity markets have started 2021 with a bang, as many public companies are reporting strong earnings and cash-rich investors chase higher returns than those offered in savings accounts and bonds. IPO activity remains vigorous, with SPAC offerings dominating issuances and the news. Continued low interest rates, growing savings, and a fast-rebounding economy should power markets further, though pending government deficit jumps, commodity price hikes, and global supply chain issues will present some bumps along the road.

Record VC fundraising coupled with high-profile IPOs, SPAC mergers, and an endless flow of unicorns (highlighting the riches to be made in an increasingly speculative market) are enabling startups to raise money with relative ease at lofty valuations. And credit markets remain active as well, including at the junk level, despite the prevailing low interest rates.

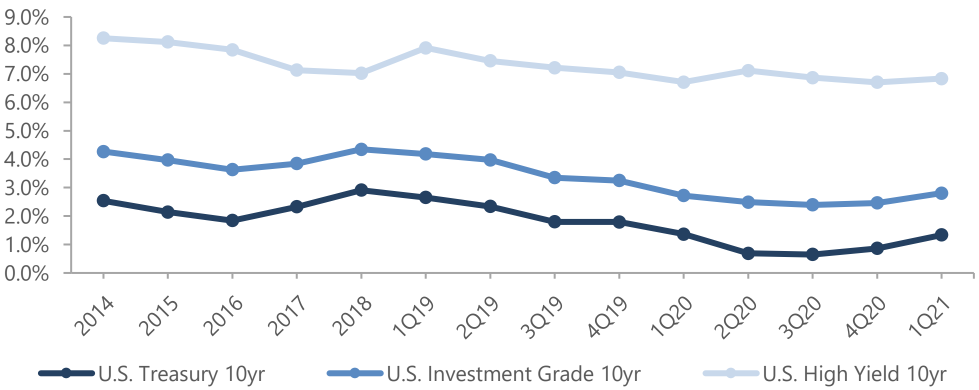
Equity Markets

- The U.S. IPO market continued its strong momentum from 2020, with Q1 2021 recording the busiest quarter in over 20 years; excluding SPACs, there were 99 IPOs that generated deal proceeds of $41.1B[1]
- Investors poured money into SPACs at a record pace in the first quarter of this year, with an average of over four created each day raising a total of $91B; in all of 2020, SPACs raised $83B across 256 deals[2]
  - With over 400 active SPACs in the market, the volatility is likely just beginning – these SPACs have over $140B of capital and typically buy companies five times their size, implying buying power of over $700B, setting up a scramble for deals within the typical two-year widow[2]
  - Investors' desperation to chase SPACs may serve as a contrarian indicator; after SPAC issuance peaks in 2007 and 2011, the S&P 500 fell by 58% and 22%, respectively[3]
- A recent survey indicated that retail traders plan to put 40% of the latest government stimulus payments into the stock market, or $170B[4]
  - During the decade prior to the pandemic, retail investors accounted for roughly 10% of trading activity in the stock market, but in the last year they have become responsible for close to 25%[5]
- U.S. venture capital recorded a blistering start to 2021 as startups raised a record $62B in Q1, more than double the Q1 2019 amount[6]
  - Bitcoin's latest bull run pushed VC investment for blockchain and crypto startups to unprecedented highs – $3B across 239 deals in Q1 2021[7]

Debt Markets

- For PE-led transactions between $10.0M and $250.0M, the average total debt/EBITDA multiple was 3.8x according to the most recent available data, an increase over the 3.3x seen during the onset of the pandemic and nearing the 3.9x to 4.1x range that existed pre-pandemic[8]
- Regulators have warned banks and investors against leveraging companies by more than 6.0x EBITDA; still, 53% of M&A deals with high-yield loans in January exceeded that guardrail, the highest ratio since August 2017[9]
- The 25 largest U.S. banks currently hold 45.7% of their assets in loans and leases, down from 54.1% in Q1 2020, while holdings of U.S. Treasury and agency securities increased by 33.5%; this reflects more stringent borrowing standards and diminished loan demand[10]
- The average 10-year yields on U.S. investment-grade and high-yield debt increased, but remain near all-time lows, earning investors 2.8% and 6.8%, respectively[11]
- As of February 2021, investors had borrowed $814B against their investments, a record amount that represents a 49% year-over-year increase, the fastest jump since 2007[12]
- Through the first quarter of 2021, the value of debt issuances are running a third higher than the previous ten-year average, acquisitions are more than double, and IPOs are some 15 times higher[2]

Average Yield[11]



1. *Ernst & Young*
2. *Dealogic*
3. *Bank of America*
4. *Deutsche Bank*
5. *Goldman Sachs*
6. *PwC & CB Insights*
7. *PitchBook*
8. *GF Data*
9. *LevFin Insights*
10. *The Federal Reserve*
11. *S&P Capital IQ*
12. *FINRA*

Are You Running an Analog Supply Chain for a Digital Economy?

The Covid-19 pandemic has exposed long-standing weaknesses in how we make, source, sell, and move goods. The answer is digitization and automation, in four steps.

In brief

- The global supply chain, in its current form, is incapable of withstanding the disruptive forces of tomorrow.
- Fast-changing consumer preferences, environmental disruptions and intrinsic changes to the global order are key drivers of change.
- There are four imperatives for digitizing and automating the supply chain: intelligence, architecture, operational excellence and planning, and sustainability and resilience.

The global supply chain is a creation from the past, ill-suited for today's fast-changing world. It was designed with linearity in mind: a singular focus on minimizing transport costs through building high-capacity, point-to-point distribution infrastructure. This existing infrastructure can be repurposed, even as newer, faster alternatives have been and will continue to be developed. And, as global trade has accelerated in recent decades, greater levels of investment and manpower have been dedicated to expanding capacity to achieve cost efficiencies.

Yet, the disruption of Covid-19, global shipping delays and port congestion, and the blockage of the Suez Canal have been a wake-up call: the global supply chain is increasingly ill-equipped for today's world and needs to become digital and autonomous if it's to be able to automatically identify and respond to external shocks.

The case for modernizing the global supply chain

Three factors are driving the obsolescence of the global supply chain. First, change in consumer and business demand is accelerating. The EY Future Consumer Index, launched at the beginning of the pandemic, revealed that consumers around the world are progressively shifting their expectations toward products and services that are digital, local, and sustainable. The vision of truly universal, lightning-fast internet access is being realized due to continued smartphone adoption, the emergence of internet of things devices, and next-generation telecom infrastructure, such as 5G and low-earth-orbit satellite constellations. Consumer and business purchases and decisions will increasingly be voice-driven and machine-augmented, with companies' relationships with customers machine-to-machine, values-based, and digital-first.

- 39% of global consumers will shop more online for products they previously bought in stores.
- 48% of global consumers say the environment and climate change will be a top priority for them in how they live and what products they buy.

EY Future Consumer Index, October 2020

Second, environmental factors are starting to exert greater influence. According to the International Air Transport Association (IATA), Covid-19 contributed to an estimated decline of 66% in air traffic in 2020. Additionally, climate change is fueling increased frequency and severity of extreme weather events. One peer-reviewed scientific study estimated that the frequency of intense floods and storms could double within 13 years, and, in 2020 alone, we saw severe flooding in China and India, wildfires in California, typhoon-induced extreme flooding in Japan, and Hurricane Laura, the 16th costliest hurricane on record. In the longer term, rising sea levels could potentially wreak havoc on many seaports and airports located at sea level. Businesses — especially those with large physical footprints — should expect climate-related disruptions as the norm for decades to come.

Finally, the global order is fundamentally reshaping. The rebalanced global system has increased the likelihood that multipolarity will be the end state, as China tries to establish its own sphere of influence in opposition to the West, led by the United States. Escalating tensions around trade, technological innovation, and health care suggest it's highly unlikely we'll revert to the cooperative past that characterized the period following China's 2001 admission to the World Trade Organization. Yet cooperation will be key, especially among countries in close proximity to one another.

Are You Running an Analog Supply Chain for a Digital Economy?

Four imperatives for digitizing and automating your supply chain

So, how do you future-proof your supply chain? Start by comparing prevailing consumer and business preferences with your supply chain's performance dimensions: cost, quality, and delivery.

The linear global supply chain, designed with little flexibility in mind, has sought to meet consumer and business demands by lowering cost through scale, minimizing delivery time through inventory buildup and logistics capacity expansion, and upholding quality with stringent procurement processes. Yet the strain is apparent. These approaches are not scalable and run counter to the flexibility needed for today's consumers and businesses, while the severity and frequency of climate events and the ever-changing trade regulatory landscape are making the linear global supply chain untenable.

The answer? Applying modern technologies to enable greater levels of automation. Consider the history of telecommunications. The burgeoning cost of manually routing each call, coupled with growth in demand, prompted the invention of the Strowger switch, an automatic private branch exchange (PBX) capable of mechanically routing phone calls with minimal human facilitation.

The global supply chain today stands where the telecommunications industry did 60 years ago. Its only sustainable transformation strategy is to become fully digital and autonomous, able to not only automatically identify and respond to events brought on by natural disasters and geopolitics but also to enable real-time activities, traceability, and responses to customers by seamlessly communicating among assets, systems, and the front and back ends. Real-time information sharing will enable an autonomous supply chain that reduces human involvement — just like the arrival of the automatic PBX made the job of the human telephone operator redundant.

Don't expect any buzzy emerging technology — blockchain, artificial intelligence, 3D printing, cloud-based data lakes, digital twins, warehouse automation, delivery drones — to be a supply chain panacea. The EY Supply Chain Reinvention framework recommends four imperatives to enable an organization's supply chain to transform into one where decisions are more data-driven.

1. Supply chain intelligence: Siloed departmental data is common, so the start of any supply chain reinvention journey is to invest in the right mix of infrastructure and trained talent to enable end-to-end, real-time visibility, allowing for the identification of company-, industry- and geographic-specific pain points.

2. Supply chain architecture: Visibility allows the design of an ideal supply chain operating model, from the structure to governance and processes. This intelligence also assists when weighing the pros and cons to determine the correct mix of local, regional, and global sourcing and manufacturing capability.

3. Integrated operational excellence and supply chain planning: This is often the most arduous and continuous step. Key elements, such as procurement, manufacturing, logistics, and fulfillment, should be individually examined, while adopting a systems mindset, to develop all-horizon implementation plans employing such technologies as smart factory, digital fulfillment, and integrated digital planning.

4. Supply chain sustainability and resilience: Once supply chain operational excellence is achieved, the next evolutionary step is adopting future business models to sustain competitive advantages. For fresh produce, for example, vertical farming promises to enable production at the point of consumption, dramatically reducing carbon footprints. In fashion, home décor and other consumer products sectors, where hyper-personalization could be a key differentiator, 3D printing facilities close to customers and smart factories in near-shore locations may prove to be viable options. And, in sectors where disposal of polluting batteries has been a notorious and persistent issue, adopting a circular supply chain operation by repurposing and recycling could be a positive step toward meeting environmental, social, and governance (ESG) targets.

Enterprises are faced with increasing stakeholder pressure to build sustainable businesses. According to our latest supply chain reinvention survey, supply chain executives rank sustainability as a top priority over the next three years, second only to supply chain efficiency.

A chance for competitive advantages

We're not suggesting that transforming supply chains is easy. It's an arduous and individualized journey where success is contingent upon the commitment of employees, as well as affiliated partners and suppliers. As these efforts are taken by more and more firms around the world, the global supply chain will morph into a network-based, digitized, and autonomous supply chain that embraces the 3Rs: responsiveness, reconfiguration, and resilience. Companies that move early with intent will gain sustained competitive advantages for years to come.

Summary

The Covid-19 pandemic has exposed long-standing weaknesses in the global supply chain, an integral part of trade and commerce globally. Fast-changing consumer and business preferences, heightened frequency of environmental disruptions, and intrinsic changes to the global order are key drivers for supply chain transformation. By addressing the four imperatives for supply chain reinvention, companies will reap the benefit of decisions based on data rather than guesswork.

By Edmund Wong and Glenn Steinberg, Ernst & Young LLP

About the Authors:

Edmund Wong is a managing analyst at EYQ China, a global think tank dedicated to covering innovation and disruptive change.

Glenn Steinberg, in his role as EY Global Supply Chain and Operations Leader, helps drive high-impact strategies and business execution across the Fortune 500.

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 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

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