Deal Market Perspective

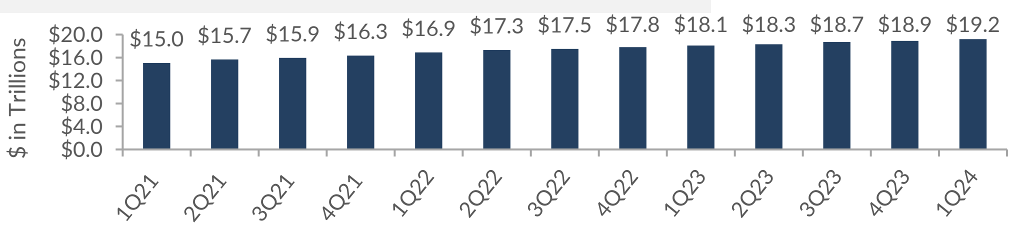
1st Quarter 2024

Economic Overview

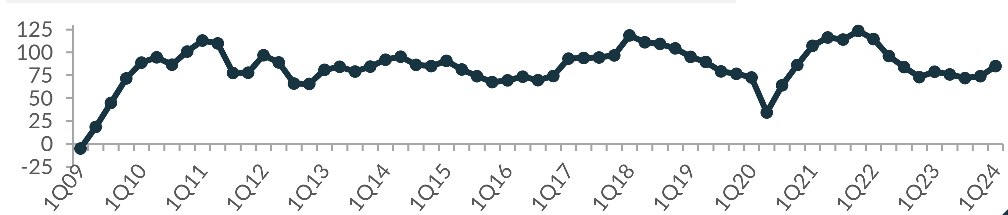
The economy in North America continues to show strength even as job and wage growth has slowed and the Fed maintains interest rates at a 23-year high. All eyes have been on the Fed and the expected timing of its ultimate rate cuts. But inflationary pressures remain, including consumer YOLO spending, increasing housing costs, the impact on oil prices of conflicts in the Mideast, high levels of fiscal spending, green economy initiatives, and global remilitarization. And the Fed must walk a tightrope when taking any action given this is a U.S. presidential election year, which no doubt will captivate America (as will our New York Knicks!).

- The U.S. GDP increased at a 1.6% seasonally-adjusted annual rate in Q1 2024, a deceleration from the 3.4% increase seen in Q4 2023[1]
- The U.S. unemployment rate was 3.8% and 3.9% at the end of March and April, respectively, up from 3.7% at the end of Q4 2023[2]
- The International Monetary Fund held its outlook for global economic growth at 3.1% for 2024, in line with its projection last quarter; global growth still is expected to rise to 3.2% in 2025[3]
- The U.S. annualized core CPI — which excludes food and energy — was 3.8% in March, down from 3.9% at the end of Q4 2023[4]
- The storied U.S. boom-and-bust business cycle may have come to an end[5]
  - Between 1850 and the early 1980s the U.S. economy experienced 30 recessions lasting an average of 18 months, with intervening periods of economic growth averaging only 33 months, driven primarily by highly cyclical industries such as manufacturing and agriculture
  - Now, these sectors are only a fraction of overall output and, since the early 1980s, there have been only four recessions lasting an average of 9 months, with economic expansions averaging 104 months
- The average American household with a mortgage is sitting on a fixed rate that's 3.2% lower than current mortgage rates[6]
  - The gap has created a nationwide lock-in effect — paralyzing people in homes they may wish to leave — on a scale not seen in decades and contributing heavily to increasing home purchase and rental costs
- China's factory exports are powering ahead faster than expected, jeopardizing jobs around the world and setting off a backlash that is gaining momentum[7]
  - China produces a third of the world's manufactured goods, more than the U.S., Germany, Japan, and South Korea combined[8]
- The average distance between people's homes and workplaces has more than doubled, rising from 10 miles in 2019 to 27 miles in 2023[9]
  - The share of workers living more than 50 miles from their employer rose more than six-fold, from 0.8% to 5.5%
  - Employees 30 to 39 years old live the farthest away, and the distance has risen the most among this group, a sign Millennials are taking advantage of the flexibility remote and hybrid work provides as they reach parenting age
- Nearly 42% of e-commerce orders last year involved stores, up from about 27% in 2015[10]
  - Retailers are on track to open more stores than they close in 2024 for the third consecutive year[11]
  - Return fraud has become a major issue; about 13.7% of returns in 2023 were fraudulent, accounting for $101B in overall losses for retailers[12]
- The U.S. consumer confidence index fell in Q1 2024, finishing the quarter at 104.7; down from 110.7 in Q4 2023[13]
- Business Roundtable's CEO Economic Outlook Survey, a composite index of CEO expectations for capital spending, hiring, and sales over the next six months, increased 11 points from the last quarter to 85[14]

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



Business Roundtable's CEO Economic Outlook Index[14]



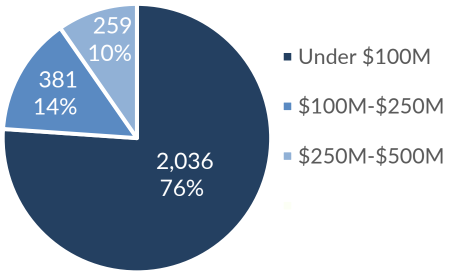
1. *Bureau of Economic Analysis*
2. *Bureau of Labor Statistics*
3. *International Monetary Fund*
4. *U.S. Department of Labor*
5. *National Bureau of Economic Research*
6. *Federal Housing Finance Agency*
7. *The New York Times*
8. *United Nations Industrial Development Organization*
9. *Gusto*
10. *GlobalData*
11. *Coresight Research*
12. *The National Retail Federation*
13. *The Conference Board*
14. *Business Roundtable*

The M&A market is starting to show signs of a potential rebound despite prevailing lofty interest rates. A relatively strong stock market, pent-up deal demand, and huge piles of cash all are catalysts. So is increasing expertise among active buyers, as discussed in our guest article by Bain and Company starting on page six.

- Global M&A deal value was $694.2B and volume was 10,440 in Q1 2024, representing a 4.3% decrease in value and a 4.2% rise in transaction count as compared with Q1 2023[1]
  - M&A almost always bounces back from two consecutive annual declines, and this year likely will not be any different; the prior two episodes of 2007 to 2008 and 2001 to 2002 registered total peak-to-trough declines of approximately 60% to 70%, whereas the present decline has measured 34.4% from 2021's peak
- North America (N.A.) M&A deal value was $464.1B and volume was 2,947 in Q1 2024, representing a 9.7% increase in value and a 2.0% slide in transaction count as compared with Q1 2023[1]
  - Large LBO dealmaking has been stunted by high borrowing costs and, although banks are lending again, it is mostly to refinance old private equity (PE) loans as opposed to new loans backing new PE deals
  - The long-awaited arrival of rate cuts by central bankers is proving to be elusive, though lower base rates still seem to be in the cards for 2024; the delay has turned a V-shaped M&A recovery into a shallower one
  - While higher borrowing costs dull the appetite among corporate acquirers, they are equally sensitive to signs of a sharp economic downturn, and with that risk quickly receding they are expected to lead the recovery effort

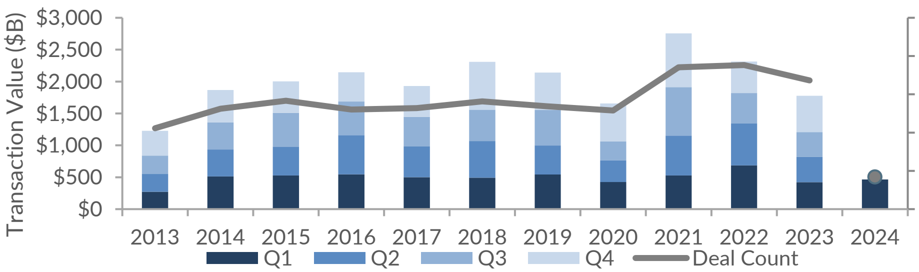
- Dealmaking in Q1 2024 was again dominated by smaller transactions, as 76% of the sub-$500M U.S. M&A market was accounted for by transactions under $100M, matching the 76% in Q1 2023 and well above the 69% seen in Q4 2023[2]
- Dealmakers still are biding time with smaller deals until conditions improve for megadeals (valued over $5.0B); Q1 2024 saw just 15 megadeals in the U.S., up 15.4% from Q1 2023, but still significantly down from the five-year quarterly average of 20 deals[1]

Q1 2024 U.S. M&A <$500M[2]

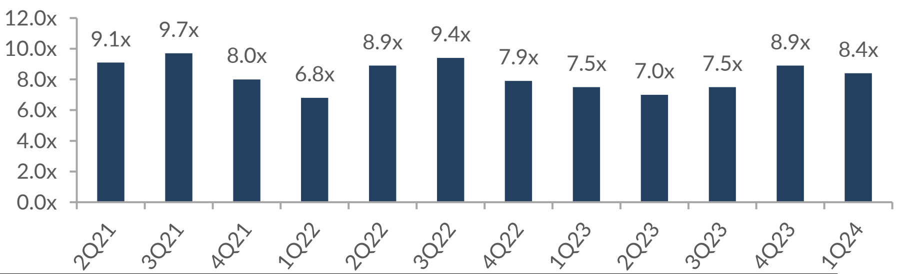


- U.S. nonfinancial companies parked over 56% of their funds in cash and cash equivalents, worth over $2.0T in Q1 2024, the highest level since Q1 2020[3]
- Despite last quarter's mild uptick in M&A-related leverage loan issuance, investor demand continues to outpace net supply and, as a result, the technical imbalance that grew last year continues to widen[1]
- After seven straight years of cross-border M&A activity in favor of Europe, net flows have finally turned positive for North America; North America M&A deal activity with a non-North American acquirer was $71.2B, up 50.3% in Q1 2024 compared with Q1 2023[1]
- The median U.S. middle-market M&A EV/EBITDA multiple in Q1 2024 for deals between $1M and $500M was 8.4x, up from 7.5x in Q1 2023[2,4]

N.A. M&A Activity [1]



U.S. Middle-Market Median EV/EBITDA M&A Multiple[2,4]



1. *PitchBook*
2. *FactSet*
3. *JPMorgan Chase*
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*

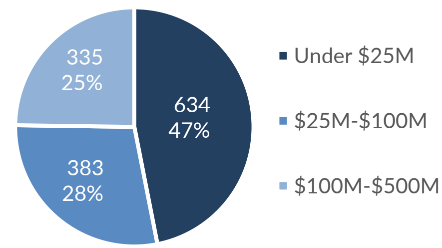
Private Equity

PE activity remains tepid. Many firms have been cautious and are anxious to deploy the substantial amount of dry powder in the market. Sellers are more readily accepting today's landscape, where contingent payments often are used to bridge bid-ask gaps and provide downside protection to buyers and upside potential to sellers. Hopefully, these factors will spur increased dealmaking in the back half of 2024.

- U.S. PE investment activity slowed in Q1 2024, with 1,382 closed deals worth a combined $145.4B, representing a 24.7% decline in volume and a 22.7% decrease in value as compared to Q1 2023[1]
- The broader M&A market troughed in Q3 2023 but not the PE buyout market, where a recovery has been delayed[1]
  - After eight years of gains, last year was the first year that PE's share of both M&A deal count and deal value declined; this trend has continued in 2024 with the share of value dropping to 33% in Q1 2024, down from 40% in 2023 and a high of 44% in 2022
- One bright spot has been corporate carveouts, which accounted for 12.6% of all buyout deals in Q1 2024, a big jump from 5.7% in Q4 2023[1]
- PE-led buys of corporate divestitures also have risen as a share of all buyouts from an all-time low of 5.7% in Q4 2021 to 12.6% in Q1 2024[1]
  - Divested assets tend to be cheaper, allowing firms with a clear valuation strategy to win big at a time when financial leverage is less impactful
- Global PE dry powder remained elevated at $2.59T at the end of Q1 2024, in line with Q4 2023, as high borrowing costs and general caution continued to hamper the desire to deploy capital[2]

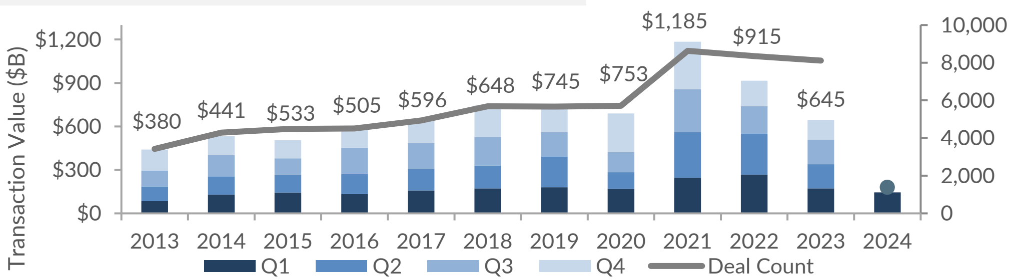
- Add-on investments continue to drive the U.S. PE market, having accounted for 59.7% of all deals in Q1 2024[1]
- For U.S. PE-led transactions between $10M and $250M, the average EV/EBITDA multiple was 7.5x, according to the most recently available quarterly data, down from 8.2x recorded in the previous quarter[3]

Q1 2024 U.S. PE Deals <$500M[1]

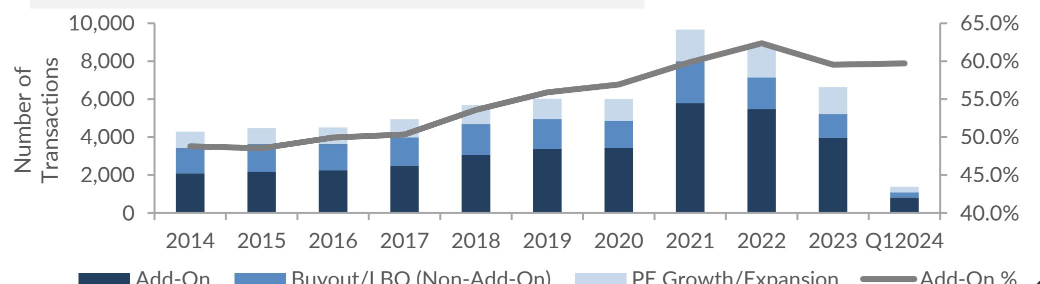


- U.S. PE fundraising results were mixed in Q1 2024, with $76.8B raised across 63 funds, a 15.1% rise in capital raised and a 13.7% decrease in the number of new funds raised as compared to Q1 2023[1]
- U.S. PE exit activity was up 19.5% in enterprise value and 13.6% in volume in Q1 2024 relative to Q1 2023, with 316 exits worth a combined $66.7B[1]
- Many PE shops have aging portfolios; traditional deal-exit routes these firms have relied on in the past are too challenging or costly[1]
  - They have turned to extracting cash from portfolio companies and giving it to shareholders via dividend loans
  - Leveraged loan issuance backing dividend recaps has topped $24B this year, a record pace aided by loan investors' intense appetite and by dwindling credit spreads that make these transactions more attractive to sponsors
- Another mechanism PE firms are employing to distribute cash to investors are net asset value (NAV) loans, which are offered by banks and private credit providers and backed by the assets of select portfolio companies[4]
  - There are about $150B of NAV facilities on the market today, which is expected to double over the next two years[2]

U.S. Private Equity Deal Flow[1]



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



1. *PitchBook*
2. *S&P Capital IQ*
3. *GF Data*
4. *The New York Times*

Equity and Debt Capital Markets

Public equity markets have bounced around in large part due to vacillations between positive and negative economic news and their effect on future interest rates and seemingly unending geopolitical strife. The IPO market has seen several recent blue-chip issuers and offered hope for a more robust second half of 2024, which would help spur still-quiet venture capital (VC) investing. And private credit has helped fill part of the gap caused by less active bank funding of M&A and other activities.

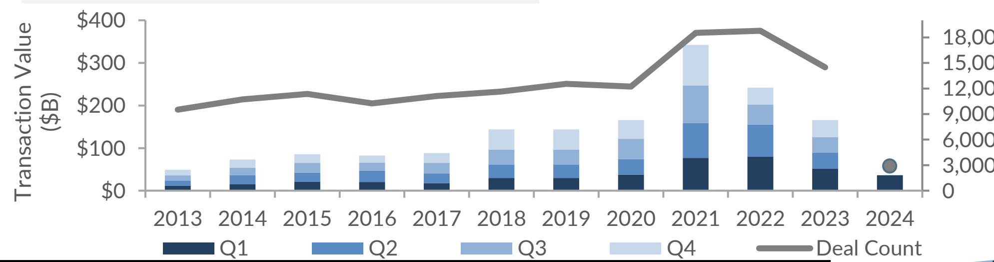
Equity Markets

- Q1 2024 saw 287 global IPOs raising $23.7B, a decrease of 7% and increase of 7%, respectively, on a year-over-year basis[1]
  - The year kicked off on a cautiously optimistic note; the Americas and EMEIA IPO markets had a bright start, with IPOs such as Astera Labs, Reddit, Rubrik, UL Solutions, and Viking Holdings leading the charge; however, global IPO activity by deal count continued to display a year-over-year decline
- The S&P 500 was up 10.2% in Q1 2024, but Q2 2024 quarter-to-date was down 0.4% as of May 13th[2]
  - Despite higher central bank policy rates, which have trickled through markets to push up credit card rates, increase the cost of auto loans, and prod 30-year mortgage rates to about 7%, the S&P 500 has shown strength in 2024[3]
- Earnings for S&P 500 companies in Q1 2024 rose, with a blended growth rate of 5.0%, up from 1.6% in Q4 2023[4]
  - Q1 2024 marked the highest year-over-year earnings growth rate reported by the index since Q2 2022
- U.S. VC deal value fell 1.2% to $36.6B in Q1 2024, while deal count dropped 0.9% to 2,882 transactions, relative to Q1 2023[1]
  - There is usually a bit of a seasonal rise that accompanies Q1, but deal activity remained relatively on pace with the past year
  - The VC business cycle effectively reset in recent years and, as of early 2024, still appears to be searching for its level
  - Despite low capital outflows, VC entered 2024 with lots of capacity; years of strong fundraising combined with low levels of investment in recent quarters mean that the sector is sitting on well over $300B in dry powder
- Investors allocated $12.6B to seed- and early-stage startups in Q1 2024, a 14.6% decrease from Q1 2023[5]
- Flat and down rounds continue to rise as a share of all VC deals, hitting 27.4% in Q1 2024[5]
- The number of investment professionals at the 500 largest U.S. VC firms by assets under management swelled 77% from 2017 through the end of 2022; but, over the past 15 months, that growth has slowed to just 2%[6]
  - The growth of the leading VC firms will heavily depend on their ability to raise ever-larger funds, a prospect dimmed by high interest rates and a subdued IPO market[5]

Debt Markets

- The 10-year yields at quarter-end on U.S. investment-grade and high-yield bond indices rose slightly with mixed monetary policy expectations, earning investors 4.21% and 7.81%, respectively[2]
- For PE-led transactions between $10M and $250M, the average total debt/EBITDA multiple was 3.3x, according to the most recently available data, well below the 3.9x to 4.1x range that existed pre-pandemic[7]
- Direct-lending funds rose to more than $540B in assets last year from $70.8B a decade earlier, but this growth may be slowing[5]
  - Private debt expanded in the past decade or so after many banks pulled back from commercial lending as regulators tightened rules following the financial crisis; but, so far this year, many financing deals are returning to banks from private credit
  - In Q1 2024, almost $12B of debt from direct lenders was refinanced via the so-called broadly syndicated loan market, a channel dominated by banks; this was a sharp reversal of the opposite pattern in the prior two quarters
- Refinancing remained the name of the game in high-yield bonds; volume to address refinancing needs surged to more than $64B in the quarter, reflecting a lofty 76% share of the full-quarter volume[5]

U.S. Venture Capital Deal Flow[5]



1. *Ernst & Young*
2. *S&P Capital IQ*
3. *The New York Times*
4. *FactSet*
5. *PitchBook*
6. *Live Data Technologies*
7. *GF Data*

How Companies Got So Good at M&A

At a Glance

- Companies did M&A deals worth more than $56 trillion over the last 20 years and are getting much better at it.
- Frequent acquirers have a 130% advantage in shareholder returns over non-acquirers — it was 57% in 2000–2010.
- Companies have been rewarded by making scope acquisitions in addition to scale deals.
- Other factors in successful deals include more sophisticated due diligence and integration.

Let's hop into the time machine and dial in 2004. Companies were struggling to grow at a time when the empirical evidence clearly showed how difficult it was to grow a world-class business organically. Yes, they knew they were taking a big risk with M&A. At the time, most academic studies found that 70% of all mergers failed. Bain's own surveys of executives found that just about 60% of all deals failed to meet internal expectations.

If so many deals destroyed value, why did executives keep doing them?

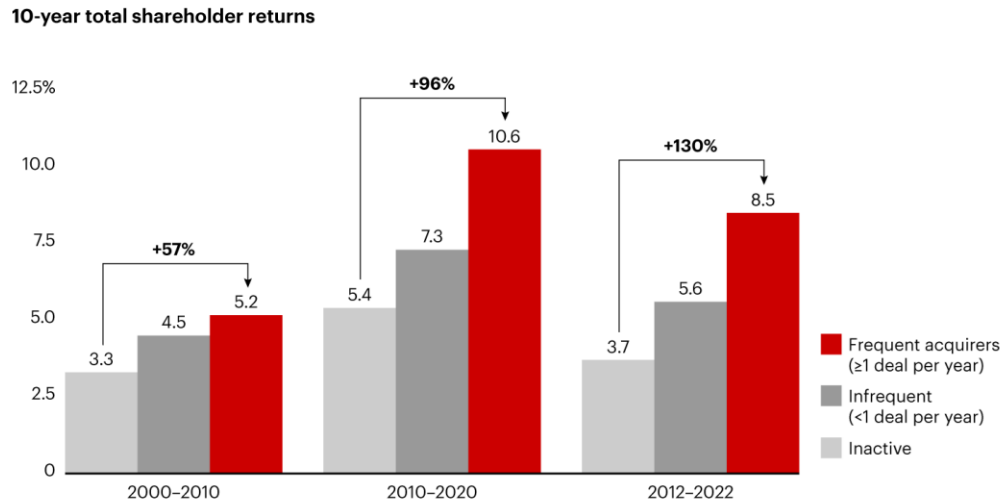
This was the paradox that led us to conduct a deep dive into the factors contributing to the seemingly rare M&A successes, the findings of which we published in Bain's 2004 book, Mastering the Merger (HBR Press).

The last two decades have upended that paradox to the point that now most great companies are the by-product of M&A, and those that have mastered the art of frequently adding new businesses to their portfolios unequivocally perform the best.

It's not as if M&A isn't still risky — the landscape is littered with failures. Yet, while some companies made difficult missteps, others learned, deal after deal, how they could substantially boost the odds of success in their favor. To put some data behind this assertion, from 2000 to 2010, companies that were frequent acquirers earned 57% higher shareholder returns vs. those that stayed out of the market. Now that advantage is about 130% (see Figure 1). Sitting on the M&A sideline is generally a losing strategy.

Figure 1

Frequent acquirers are gaining a performance advantage over time



Note: Total shareholder return is defined as stock price changes assuming reinvestment of cash dividends
Sources: Bain M&A Value Creation Database (2011, 2021, and 2023 studies); Capital IQ; Dealogic

What are the companies that are active in M&A doing differently? We've identified four areas of focus that have been systematically developed by the best acquirers over the past 20 years.

They've broadened the bounds of M&A. In 2004, "Stick to your knitting" was the unofficial rallying cry for M&A, as virtually all deals were aimed at building scale from a core business. The focus of M&A moved from cost and defense to growth and offense. The strategic shift from scale to scope reflects a massive change in the way M&A is done, and it has largely rewarded the frequent acquirers that have pursued this strategy and thoughtfully honed their approach, learning from each deal.

How Companies Got So Good at M&A

They've become more sophisticated with due diligence. In 2004, it would have been unthinkable to conduct a culture assessment. Now it underpins every successful deal. In 2004, companies often relied heavily on a Quality of Earnings audit, a process that was akin to driving a car by looking in the rearview mirror. As options like web scraping and expert networks emerged, the best acquirers quickly made themselves authorities on the businesses they were pursuing.

They've done a lot more deals. Undoubtedly, the No. 1 predictor of a successful acquirer is experience. Twenty years ago, we first demonstrated how frequent acquirers routinely outperformed infrequent and inactive ones in shareholder returns. This was especially true of companies that bought throughout the economic cycle. In the intervening 20 years, we have repeated this analysis and saw the same result. Indeed, our 20-year look back found that frequent acquirers earn more than double the returns of non-acquirers. Hyper-acquirers (companies that do five or more deals a year) earn even higher returns — an additional 20% boost.

They've learned that big one-off deals remain risky. In Mastering the Merger, we boldly stated, "The worst strategy a company can employ is to make a few big bets." Those words proved true in a host of massive deals (let's pause and remember AOL/Time Warner) — mergers that grabbed headlines but turned out to be utter failures. The riskiness of making big bets has stood the test of time, which is why the best acquirers avoid it. On the other hand, frequency — how much of it you do — does matter.

Paradox resolved

The practice of M&A has come a long way. Over the past two decades, companies have done around 660,000 deals worth a total of $56 trillion — and over the last 10 years, the M&A market has visibly expanded, reaching an all-time high in 2021. Companies are doing a lot of M&A, and we believe that they are getting a whole lot better at it. Today, executives report that close to 70% of deals are successful. Many are proud of their track records and willingly share what they are doing differently. Additionally, they share how they're preparing for continued wins as the bar for successful M&A gets higher amid higher cost of capital for most companies and as competition for quality assets continues unabated.

Here's what the decision makers behind some of the most successful deals say are the critical steps.

Great M&A comes from great corporate strategy. This is an area where M&A thinking has evolved significantly. And it must continue to do so. Beyond the increasing development of growth-oriented scope deals, executives we speak with see opportunities from geopolitical challenges (onshoring), supply chain efficiency, decarbonization, and, dare we say it, artificial intelligence. These opportunities have given rise to a new wave of corporate venturing and innovative partnership strategies. In effect, changing context and ambitious strategic goals are catalyzing greater creativity in dealmaking.

Executives need to set themselves up for success by establishing a dedicated team — often with an office in the C-suite — to manage the deal process from beginning to end. Some of the most successful organizations have full-time, dedicated business development teams and/or private equity owners that are in perpetual motion to fill strategic gaps (in assets or capabilities) through M&A and partnerships. And the leaders of these teams have a place at the senior leadership table. Anything less than this, and the M&A efforts become reactive, episodic, and disconnected from the financial and strategic imperatives of the enterprise.

As we noted in 2004, most poor deal outcomes could have been avoided with better diligence. This is still true, but the toolbox for conducting corporate diligence work has been replaced. What was once a largely spreadsheet/financial modeling activity now encompasses such things as talent and culture assessments, customer insights, synergy benchmarks, strategic use of clean teams, and pre-integration planning. As a result, organizations are far better prepared for Day 1. By approaching due diligence thoughtfully, and with specific intent, management can detail a thesis that describes how they will add value to an asset and use their access to the target's data and leadership team to test that thesis. By engaging IT and systems integrators in the diligence process, technology can be enabled to unlock all types of synergy.

How Companies Got So Good at M&A

The art of integration has moved from rudimentary to highly sophisticated. Our theme in 2004 was to integrate where it matters. While that is still true, the statement implies that the strategic integration decision to make is where in your organization to integrate, function by function. It wasn't wrong; it was just a bit naive.

Today, we help to organize and accelerate an integration by defining the approximately 20 critical decisions that will drive value. These decisions are about how the integration is best achieved, rather than where. Some examples of these key decisions might be: "How should we redesign our direct sales effort to give optimal coverage to our key global accounts and optimal exposure to our complete solution offering?" "How will incentives be redesigned to motivate our best sellers while reaching our stretch sales goals?" or "Which enterprise resource planning (ERP) platform will be our financial system of record, and how will we successfully sunset other platforms?"

The critical decisions will differ from deal to deal, depending on the asset in question and the strategic objectives. As such, most successful acquirers avoid glib talk of an "integration playbook."

Now, what to work on in the next couple of decades.

In the end, the success or failure of almost all deals also comes down to people and culture, yet this is where companies have advanced the least. There is much more to be done as companies manage the intersection of business aspirations and employee engagement.

Where are they falling short? Companies underinvest in communications. They underinvest in establishing a "sponsorship spine" to ensure everyone is on board with the inevitable changes. They underinvest in tech tools to measure employee sentiment and employee understanding. They don't perform retrospectives to see who stayed, who left, who got promoted, who didn't, and why — information that can help them hone future integrations. And many don't make any effort to attach economic value to their culture efforts. It may be the first thing CEOs talk about but the last thing they ask their teams to actually do something about.

Indeed, a company's ability to put its employees in the best position to be productive and successful will define the winners in the next generation of business combinations.

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Bain and Company, Inc. is an American management consulting company headquartered in Boston, MA with offices in 40 countries. The firm provides advice to public, private, and non-profit organizations across all industries.

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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

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