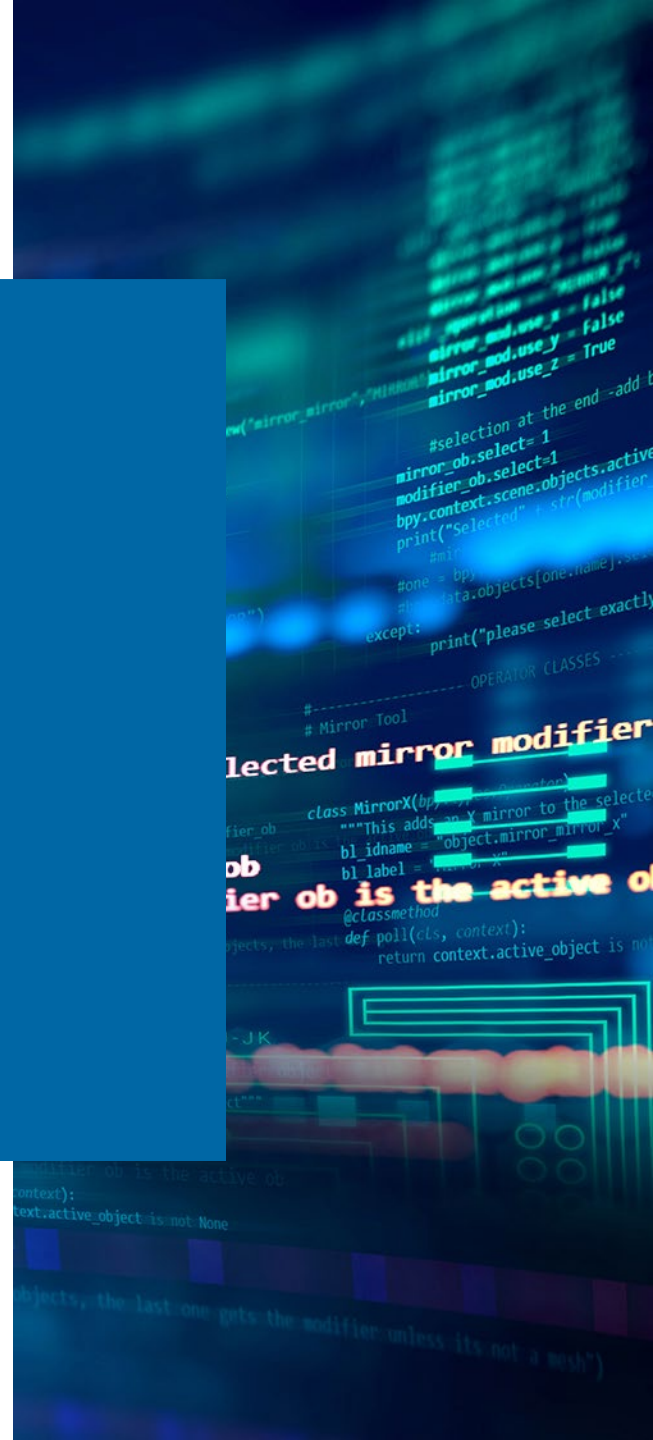


September 2023



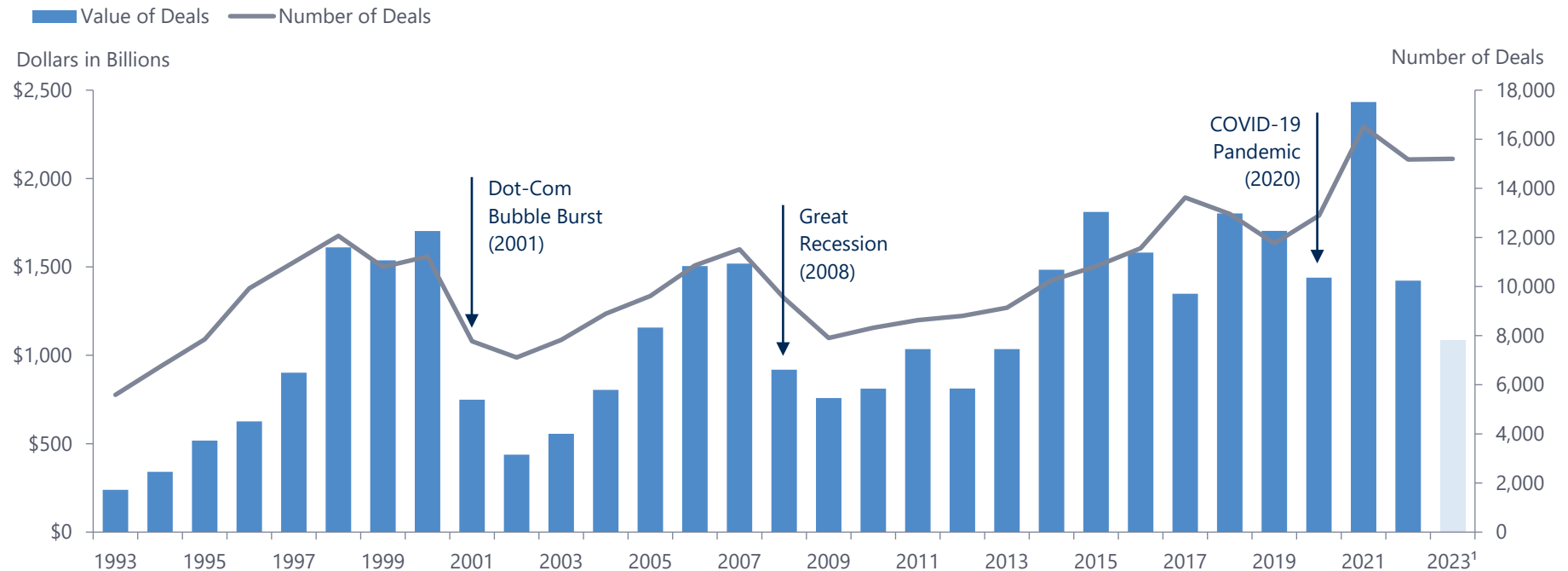
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# Market Highlights & Considerations



# U.S. M&A Activity Snapshot

## Historical Domestic M&A Activity



## Emerging Themes

- Macroeconomic uncertainty continues, with resilience in employment / consumer spending amid cooling inflation sparking talk of a “Goldilocks scenario”, but concerns over the commercial real estate and bank sectors lingering
- Financing has been less accessible amid interest rate hikes, continued uncertainty around monetary policy and bank collapses
- Equity and secondary debt markets have rallied since fall 2022, but the rebound has been uneven across sectors
- Artificial Intelligence adoption, ESG, portfolio rebalancing may serve as M&A catalysts

Source: Refinitiv as of 8/31/23.

(1) Data for 2023 Value of Deals and Number of Deals represents annualized figures based on data through 8/31/23.

# M&A Activity Drivers Snapshot

## Boom or Gloom?

### Positive Drivers

- Macroeconomic resilience amid cooling inflation sparking talk of a “Goldilocks” scenario and a potential return of confidence to boardrooms
- Despite challenging financing markets, corporate cash balances and private equity dry powder remain close to all-time highs
- Uneven recovery in the equity capital markets leading to significant uptick in unsolicited takeover proposals (including from strategics using stock as currency to finance acquisition of underperforming targets)
- Limited access to capital motivating recently-listed public companies to consider a merger or sale
- Companies increasingly turning to M&A to achieve AI-adoption and ESG objectives
- Shareholder activist campaigns focused on an M&A thesis (i.e., sales of non-core assets) continue to be a factor

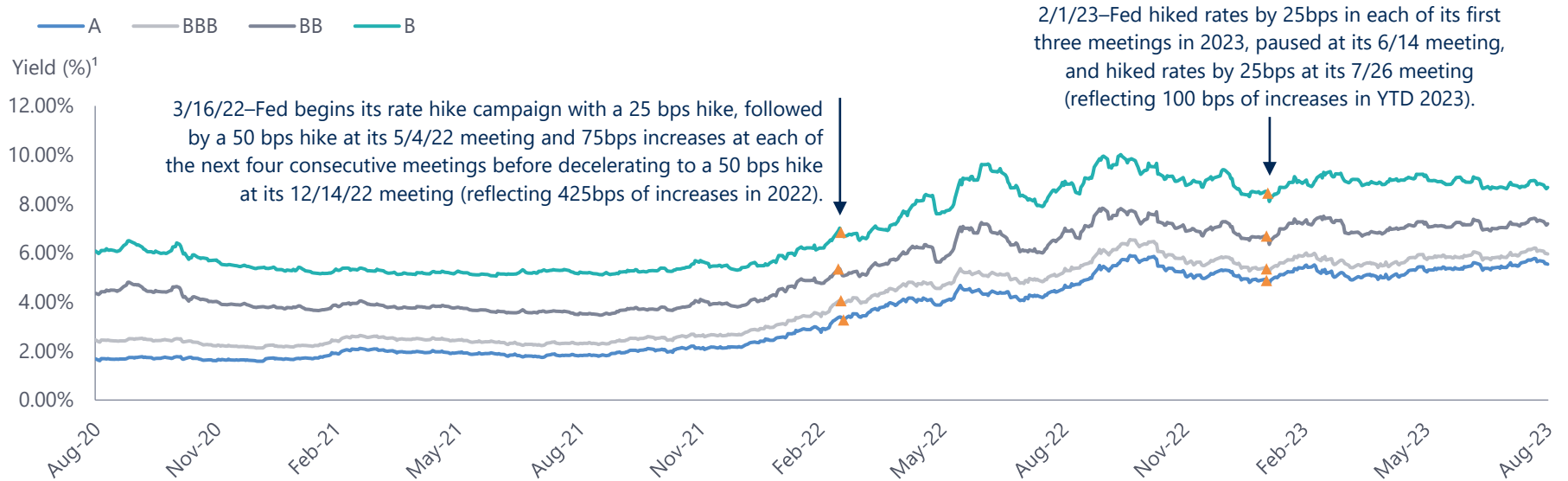
### Negative Drivers

- Continued uncertainty around geopolitical and macroeconomic conditions generally motivating cautious behavior in boardrooms
- Access to capital markets remains limited amid recent monetary tightening, bank collapses earlier this year, and uncertainty around monetary policy
- Valuation gaps between buyers and sellers remain significant
- Regulatory landscape relating to mechanisms surrounding deals (i.e., antitrust, CFIUS, etc.)

# Secondary Debt Market Performance

After increasing ~300-400 bps amid swift interest rate hikes in the first three quarters of 2022, high-yield debt yields have since pulled back somewhat from peak levels. Investment grade debt, however, is re-testing peak levels last seen in late 2022.

## Corporate and High-Yield Debt



	12/31/21	3/31/22	6/30/22	9/30/22	12/31/22	3/31/23	8/31/23
<b>A-Index</b>	2.16%	3.38%	4.38%	5.46%	5.30%	5.08%	5.54%
<b>BBB-Index</b>	2.67%	3.95%	5.13%	6.13%	5.84%	5.57%	5.96%
<b>BB-Index</b>	3.85%	5.09%	7.24%	7.81%	7.28%	6.82%	7.19%
<b>B-Index</b>	5.40%	6.57%	9.62%	9.95%	9.36%	8.93%	8.68%

Index Movements (bps)			
	Since 12/31/21	Since 12/31/22	Since 3/31/23
<b>A</b>	339	24	47
<b>BBB</b>	329	12	39
<b>BB</b>	334	-9	37
<b>B</b>	328	-68	-25

Source: Bloomberg as of 8/31/23.

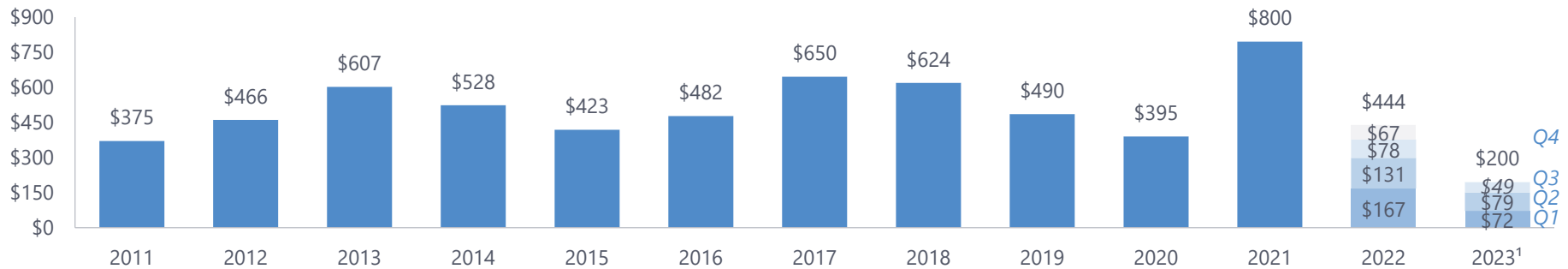
(1) Yields represent yield-to-maturity per Bloomberg

# New Debt Issuance Activity

New debt issuance activity has remained relatively muted in 2023. The banking turmoil earlier this year has challenged loan volumes while high-yield bond issuances are seeing a pick-up by comparison amid a slowdown by the Fed in interest rate hikes.

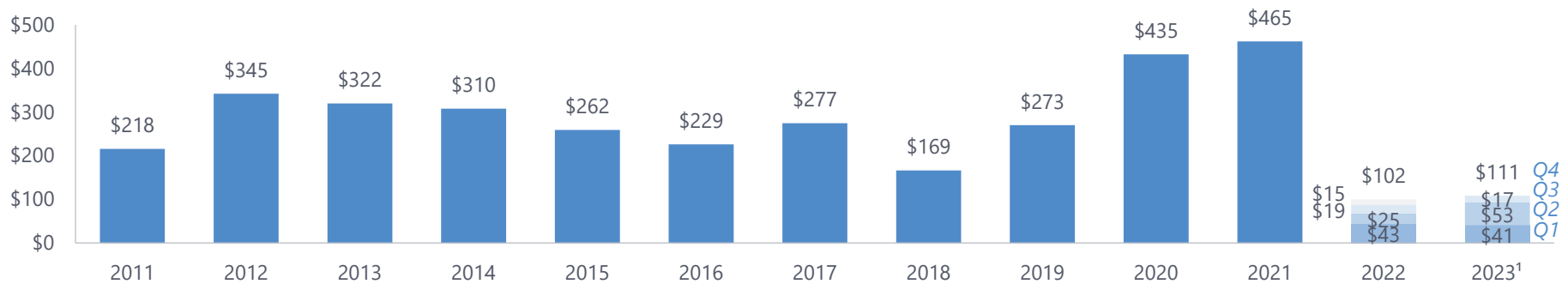
## Highly Leveraged Loan New Issuance Volume

(dollars in billions)



## U.S. High-Yield Bond New Issuance Volume

(dollars in billions)



Source: S&P LCD

(1) Includes issuance data through 8/31/23.

# Equity Market Index Performance

The equity markets have been on the upswing in YTD 2023, largely erasing the overall impact of the 2022 sell-off. A surge of investor interest in AI (artificial intelligence) has contributed to NASDAQ gains of ~34% this year.

## Equity Market Performance



## Index Pricing

	12/31/21	3/31/22	6/30/22	9/30/22	12/31/22	3/31/23	8/31/23
<b>NYSE</b>	17,164	16,671	14,488	13,472	15,184	15,375	16,000
<b>Nasdaq</b>	15,645	14,221	11,029	10,576	10,466	12,222	14,035

## Index Returns

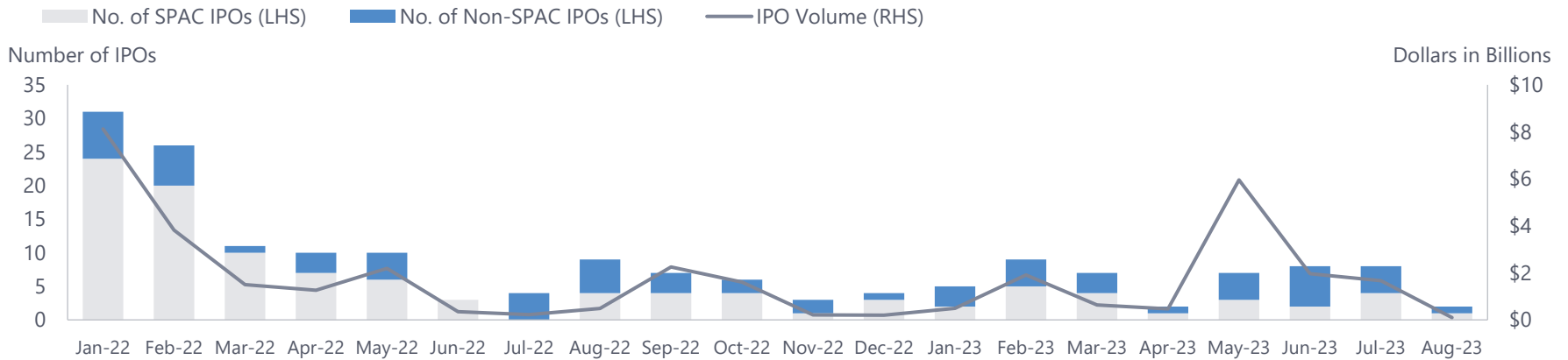
	CY 2021	CY 2022	Since 12/31/22
<b>NYSE</b>	18.2%	-11.5%	5.4%
<b>Nasdaq</b>	21.4%	-33.1%	34.1%

Source: Capital IQ as of 8/31/23 and Federal Reserve Bank of St. Louis.

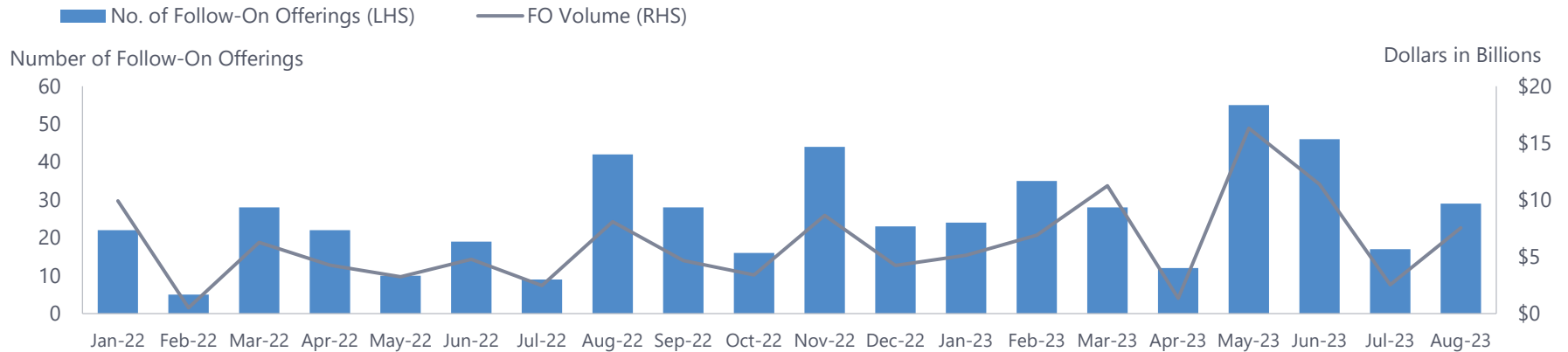
# New Equity Issuance Activity

IPO activity has remained at depressed levels since the beginning of 2022. That said, declining market volatility in recent months has led to certain recent high-profile debuts (i.e., Cava Group, Inc.) and to a pick-up in follow-on offerings.

## U.S. Initial Public Offering Issuance Summary



## U.S. Follow-on Offering Issuance Summary

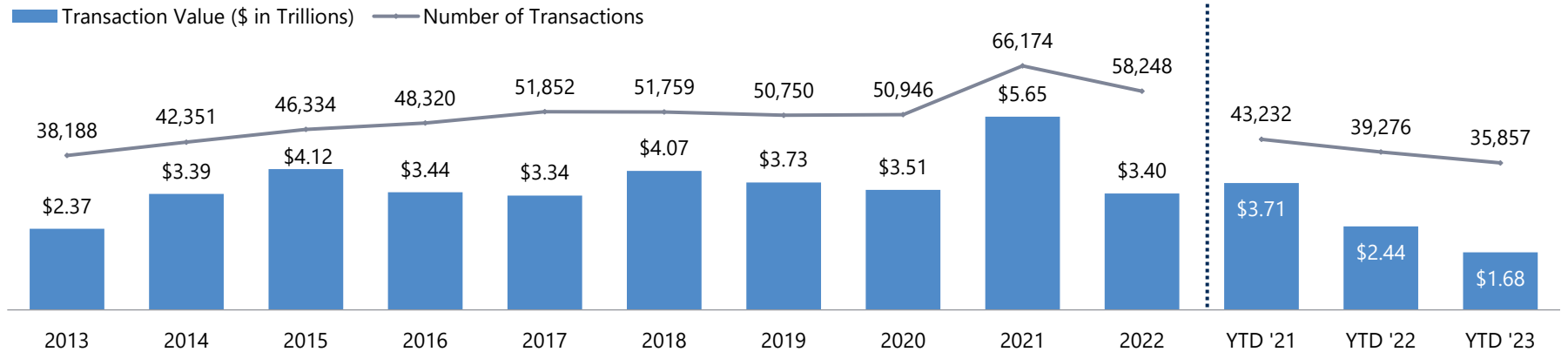


Note: The above graphs include only offerings of \$20 million or greater.  
Sources: Refinitiv, SPAC Alpha and Wall Street research.

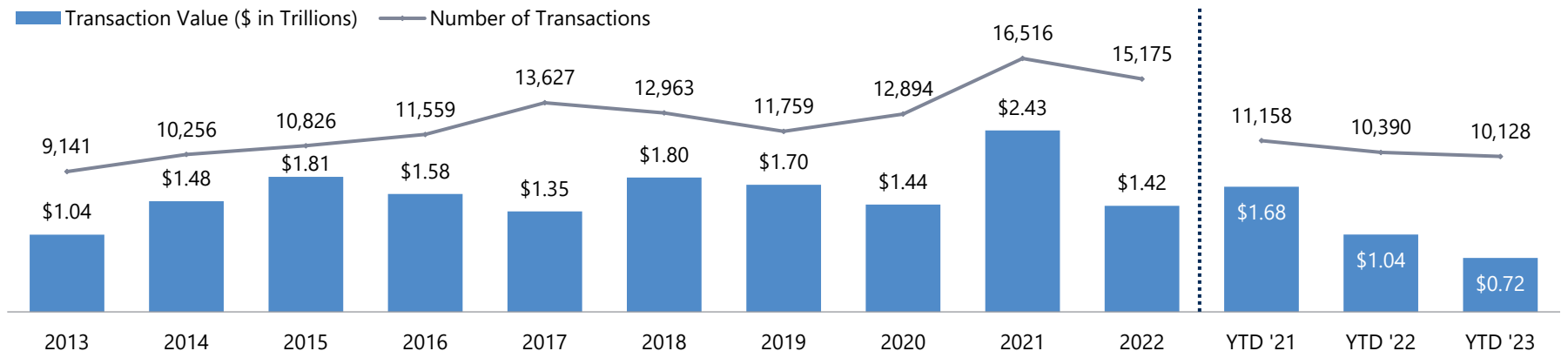
# Global and Domestic M&A Activity

Following a record-shattering year in 2021, M&A activity decreased substantially in 2022, with global and domestic transaction values dropping by approximately 40%. That trend has generally persisted thus far in 2023, with transaction values decreasing by about 30% in YTD August 2023 relative to the prior year.

## Global M&A Volume



## U.S. M&A Volume



Note: Includes minority equity deals, equity carve-outs, exchange offers, open-market repurchases, and deals with undisclosed transaction values.

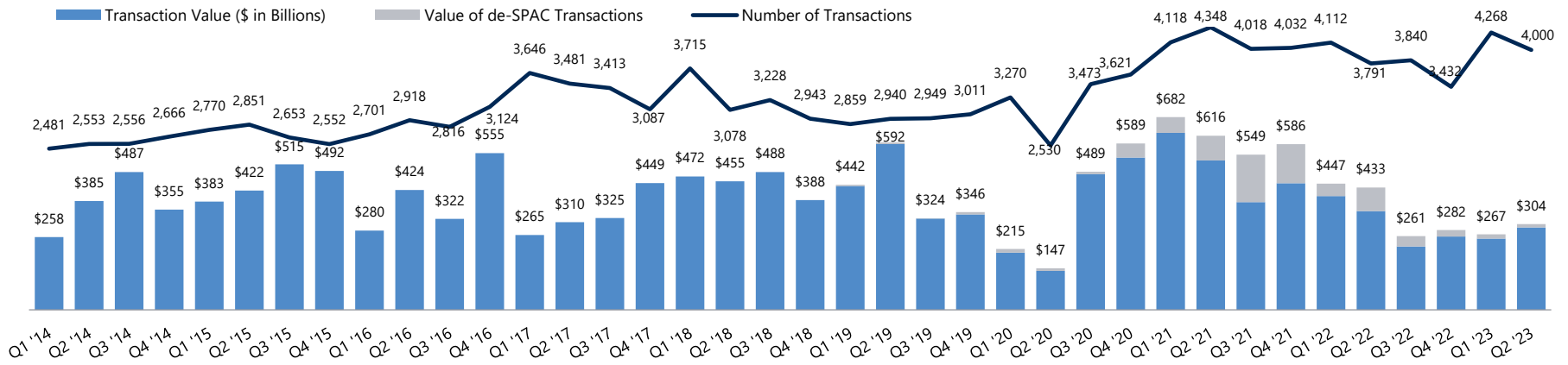
Source: Refinitiv as of 8/31/23.



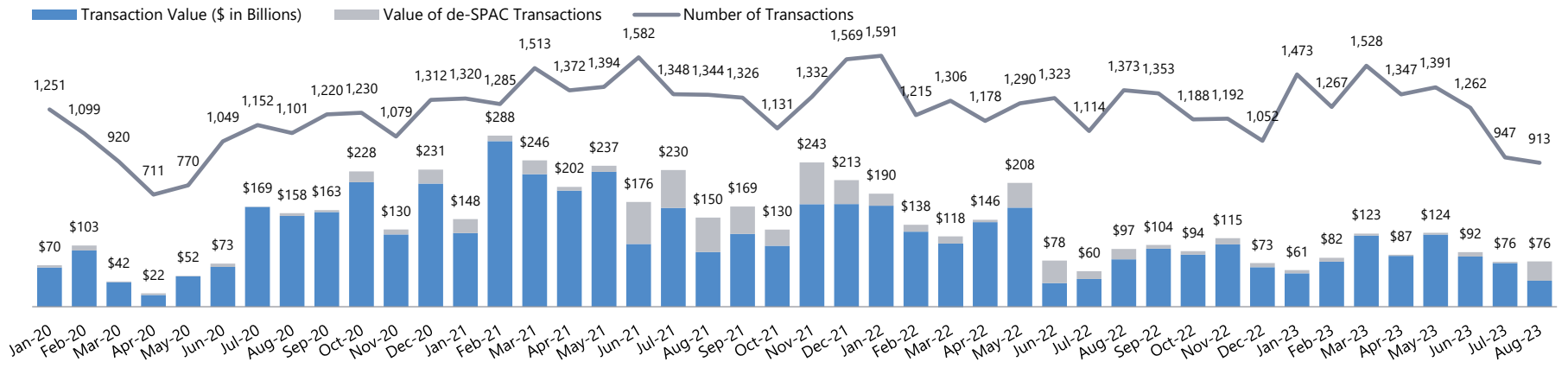
# Recent Domestic M&A Activity

Domestic transaction values during YTD 2023 have remained relatively in-line with the muted levels observed during 2H 2022 (and at levels not seen since the outset of the COVID-19 pandemic three years ago) amid continued financing challenges.

## Quarterly U.S. M&A Activity



## Monthly U.S. M&A Activity



Notes: Includes minority equity deals, equity carve-outs, exchange offers, open-market repurchases, and deals with undisclosed transaction values.

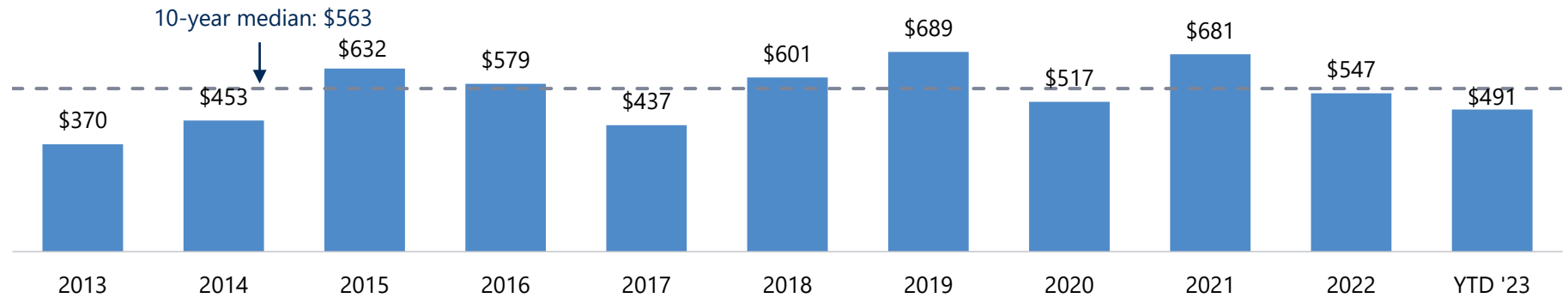
Source: Refinitiv and SPAC Research as of 8/31/23.

# Domestic Transaction Size

The average transaction size decreased substantially in YTD 2023, falling well below the median from the past decade, with transaction activity (in terms of both transaction values and number of deals) decreasing across all transaction sizes relative to recent years.

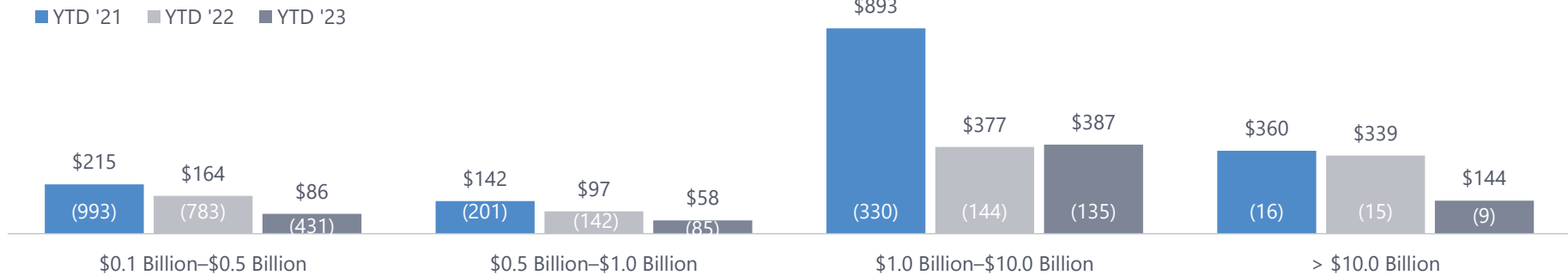
## Average Size of Announced Domestic M&A Transactions

(\$ in millions)



## Size Distribution of Announced U.S. M&A Transactions

(\$ in billions)



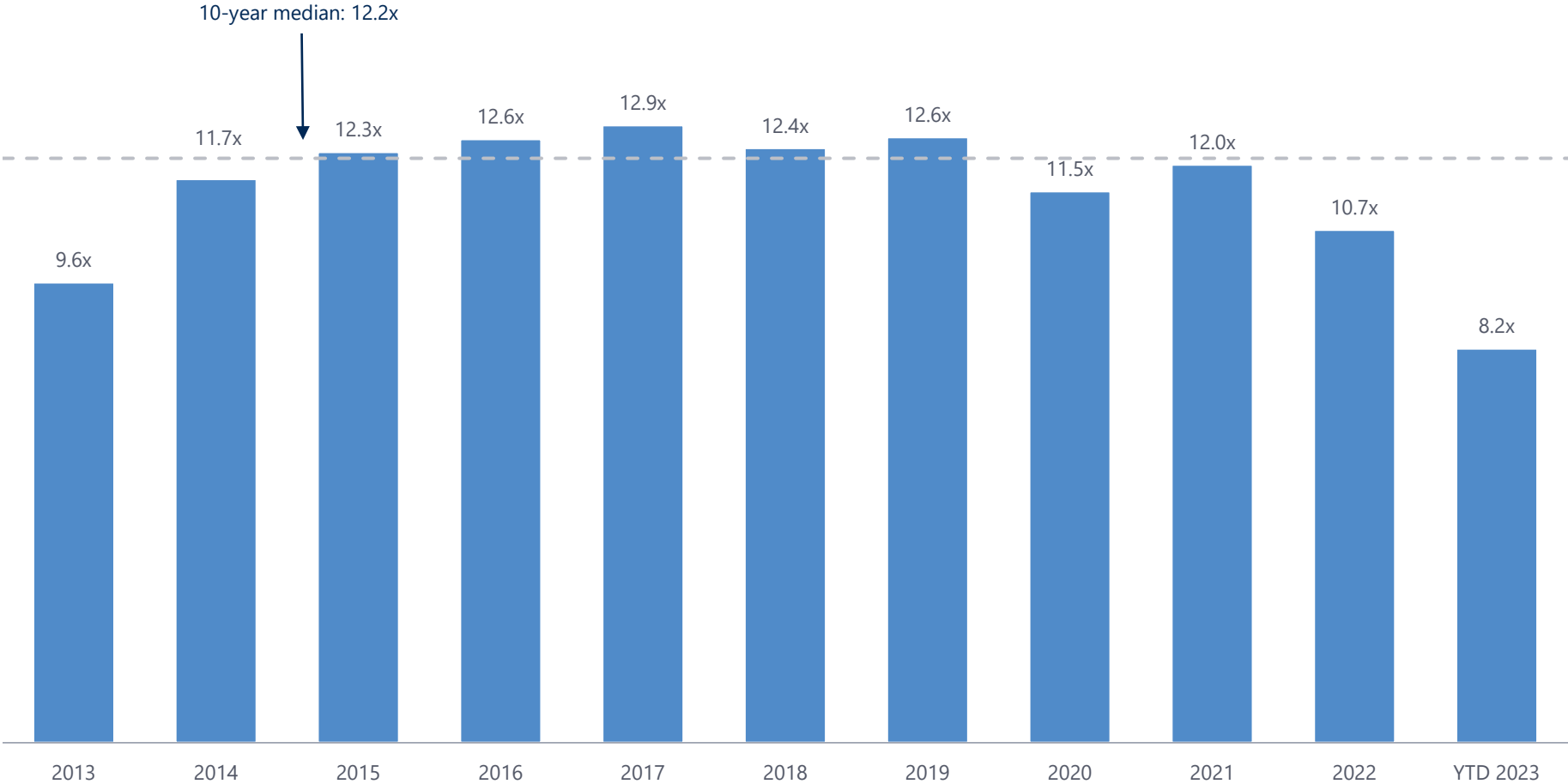
Source: Refinitiv as of 8/31/23.

Notes: The figures in parentheses represent the number of deals in each size distribution. Includes transactions with estimated values. Excludes terminated transactions. Future terminations of pending transactions will reduce totals shown. Excludes minority stake acquisitions and most minority capital infusions into major financial institutions.

# Transaction Multiples Have Declined

Transaction multiples have declined substantially thus far in 2023, falling below their lowest levels over the past decade.

## Median EV/EBITDA Multiples

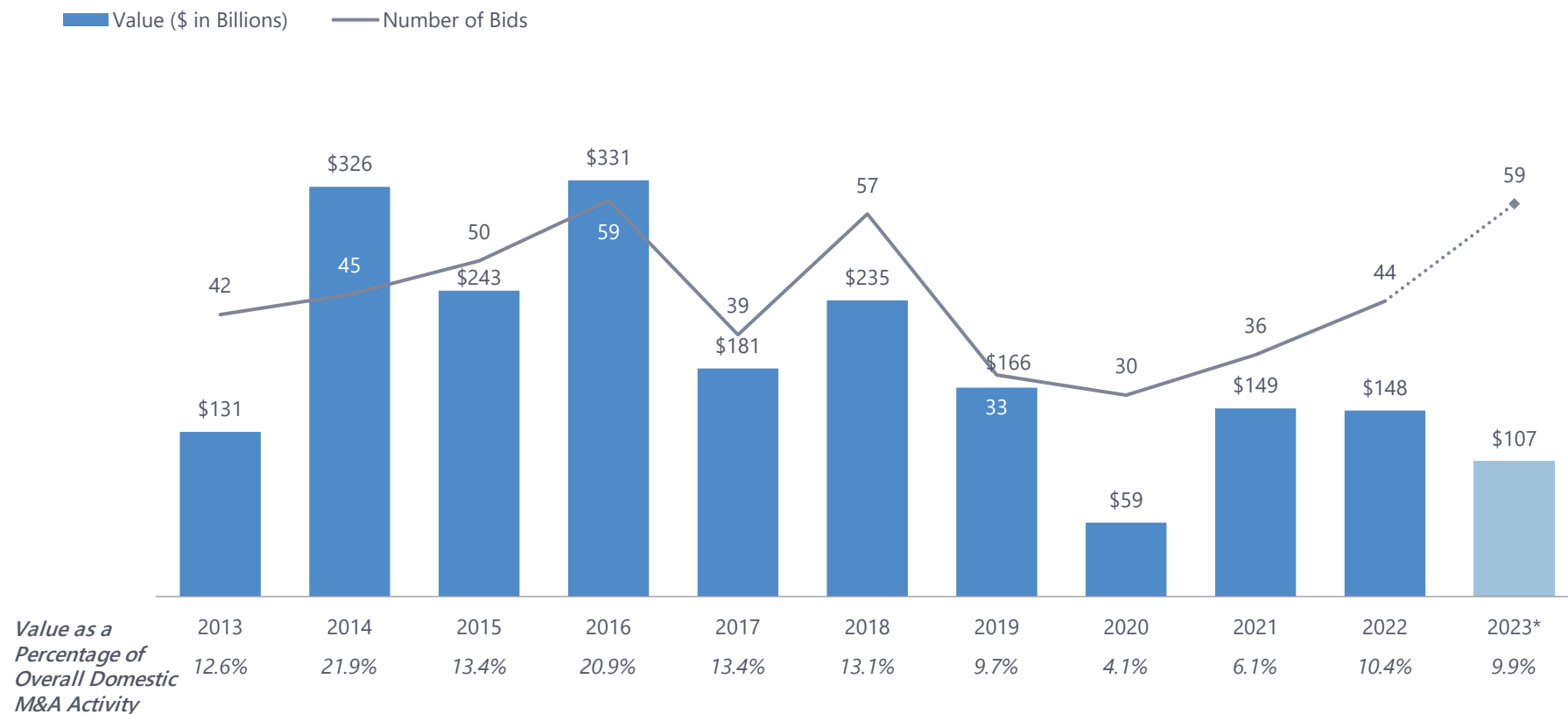


Source: Eikon as of 8/31/23.  
Notes: Based on U.S. deals and excludes multiples below 0.0x and above 25.0x.

# Unsolicited M&A Bids

The number of unsolicited M&A bids in 2023 is on pace to far exceed the highest levels seen over the past decade. The value of unsolicited M&A bids decreased slightly in 2023 on an absolute basis and as a percentage of overall M&A activity through July 2023.

## Value and Number of Domestic Unsolicited M&A Bids



Sources: FactSet and Refinitiv as of 8/31/23.

Notes: The above chart includes both unsolicited and hostile bids. FactSet classifies unsolicited bids as offers in which there were no prior discussions between the target and the acquirer. FactSet classifies hostile bids as unsolicited bids that were rejected by the board of directors of the target. Domestic M&A includes minority equity deals, equity carve-outs, exchange offers, open-market repurchases, and deals with undisclosed transaction values.

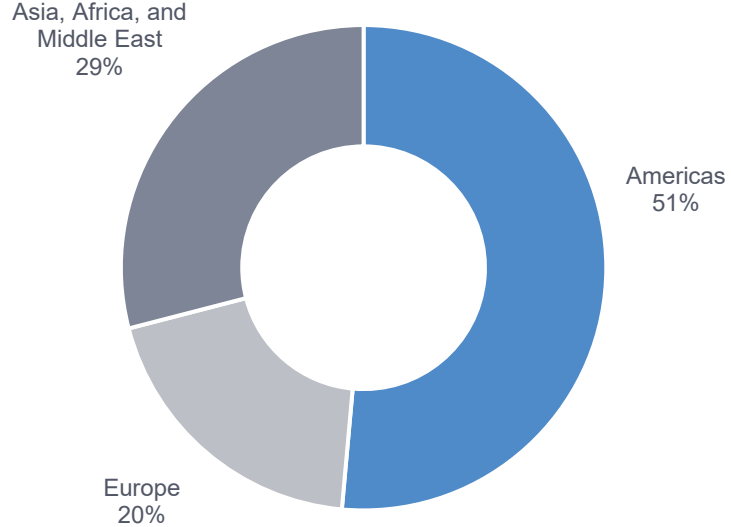
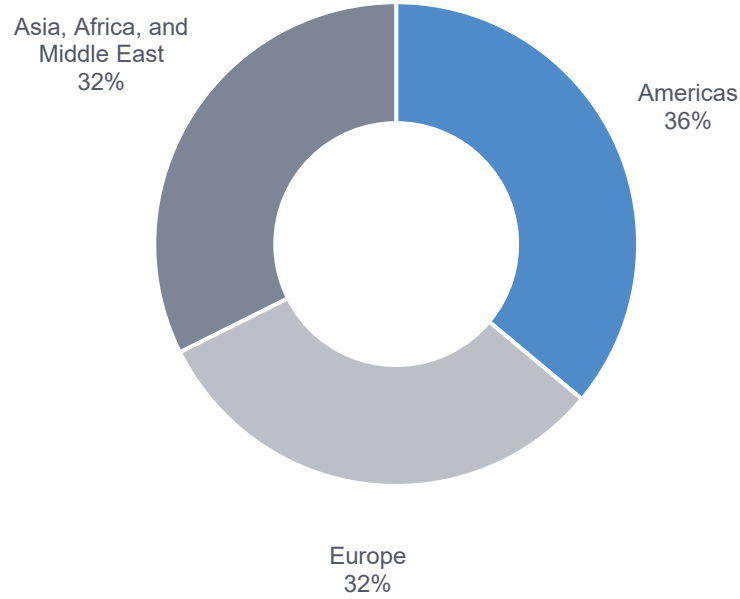
\* 2023 data has been annualized.

# M&A Activity by Region

The Americas accounted for more than 50% of global M&A activity by transaction value in YTD 2023. The number of transactions, however, was more evenly split between the Americas, Europe, and the rest of the world.

## Number of Transactions by Region

## Transaction Values by Region

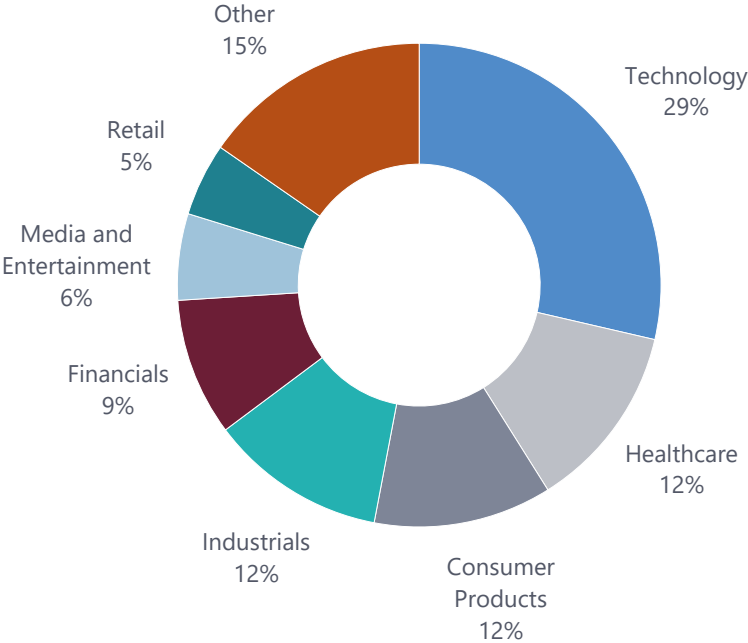


Note: For the purposes of the above charts, Europe includes Russia, and Asia includes Australia and India.  
Source: Refinitiv as of 8/31/23.

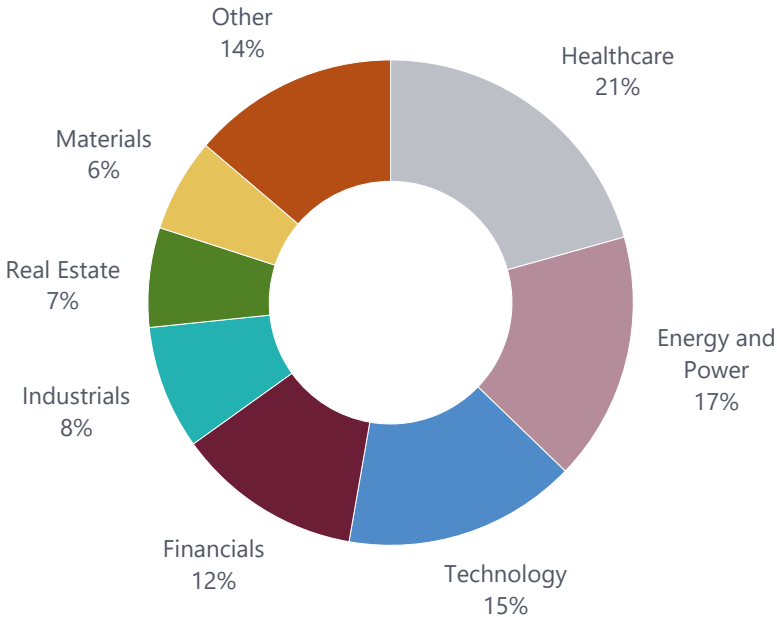
# M&A Activity by Industry: U.S.

Technology deals accounted for nearly 30% of U.S. M&A activity by number of transactions thus far in 2023 but have been a far less significant contributor to deal values than in years past, as AI-adoption driven M&A activity has yet to take hold. Meanwhile, the healthcare sector has seen a big uptick in M&A activity in 2023, accounting for over 20% of total transaction values in the U.S., driven by several announced “mega-deals.”

**Top Industries by Number of Transactions**



**Top Industries by Transaction Values**



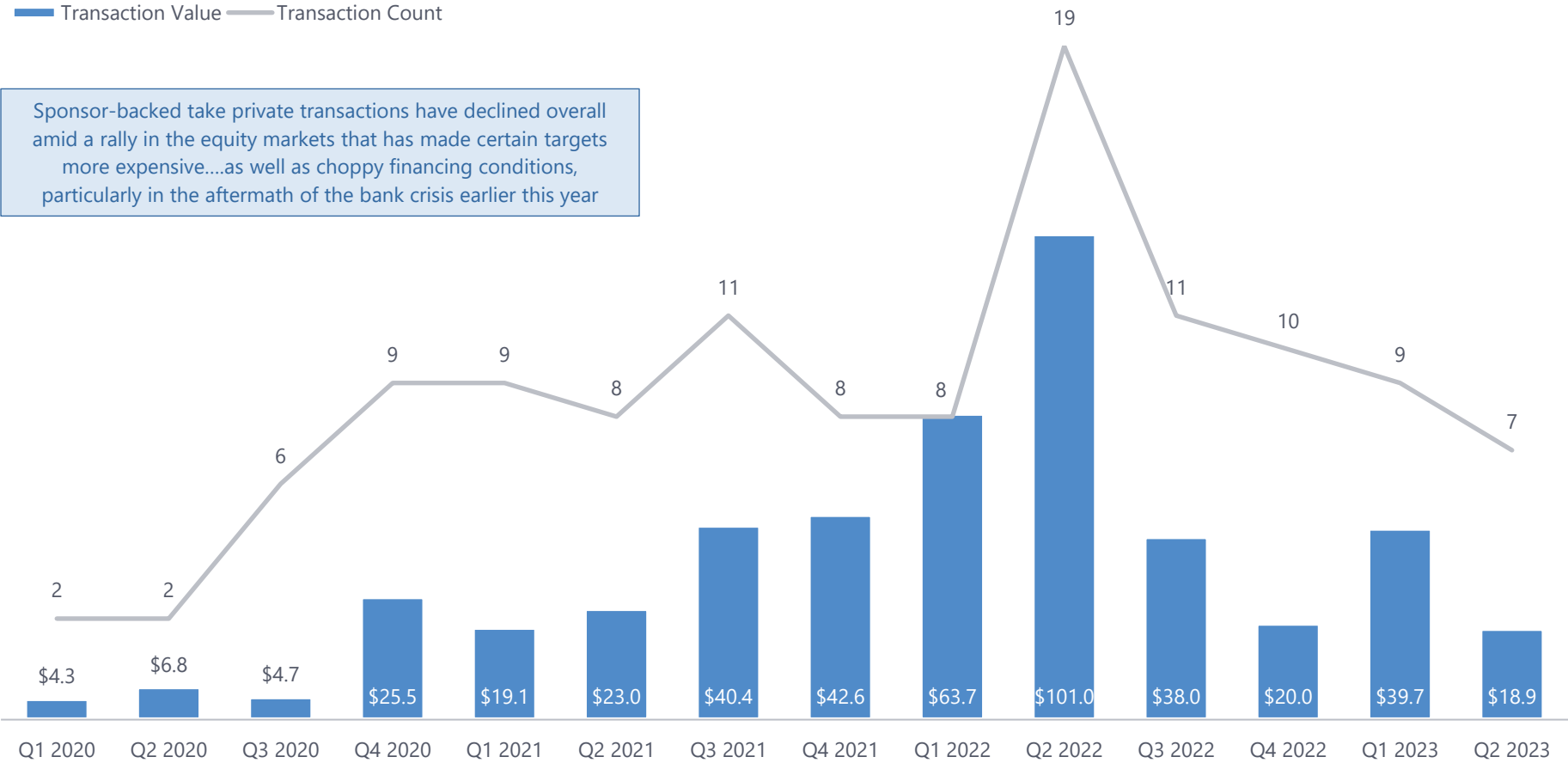
*Note: Excludes minority transactions; based on industry classification of target.  
Source: Refinitiv as of 8/31/23.*

# Sponsor-Backed Take-Private Activity Remains Resilient

Market performance of recently listed public companies has made them attractive takeover targets.

## U.S. Sponsor-Backed Going Private Transactions<sup>(1)</sup>

(dollars in billions)



Sponsor-backed take private transactions have declined overall amid a rally in the equity markets that has made certain targets more expensive....as well as choppy financing conditions, particularly in the aftermath of the bank crisis earlier this year

Source: Refinitiv  
 (1) Represents announced going-private transactions involving targets with an implied enterprise value greater than \$50 million.



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Mr. Treemarcki is a member of Houlihan Lokey's Financial and Valuation Advisory business. He has more than 20 years of experience advising clients on valuations, mergers and acquisitions, private placements of debt and equity, and in- and out-of-court financial restructurings. Mr. Treemarcki is also active in the firm's Transaction Opinions practice, rendering fairness opinions and solvency opinions to boards, independent fiduciaries, lenders, and other constituents. He has a particular emphasis on cross-border and multi-jurisdiction transactions involving companies based in North America, Europe, and Asia.

Mr. Treemarcki has experience in a variety of industries, including, among others, food and consumer products, financial institutions, media and entertainment, telecommunications, metals and mining, aerospace and defense, engineering and construction, manufacturing, chemicals, and healthcare.

Before joining Houlihan Lokey, Mr. Treemarcki was an Analyst in the corporate finance group at Ernst & Young.

Mr. Treemarcki holds a B.B.A. in Accounting and Finance from the Stephen M. Ross School of Business at the University of Michigan.





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Mr. Schaeffer has experience in a variety of industries, including food and consumer products, healthcare, financial institutions, chemicals, aerospace and defense, engineering and construction, and manufacturing.

Prior to joining Houlihan Lokey, Mr. Schaeffer worked in RSM's business valuation practice, where he provided valuations for gift and estate tax planning, financial reporting, and litigation support.

Mr. Schaeffer holds a bachelor's degree in Economics with a minor in Finance and Accounting from the University of Illinois at Urbana-Champaign. He is also an Accredited Senior Appraiser (ASA), certified in business valuation, of the American Society of Appraisers.



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