

# M&A Update

## Q3 2023



Acquisitions | Divestitures | Financings | Restructurings

# Summary and Outlook

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Decreasing trend in annual deal volume is expected to continue through the end of 2023 as buyers and sellers react with caution to recession expectations. However, as 2023 closes, those expectations show signs of diminishing as consumer spending still moderately accelerates. Corporate CEOs are beginning to change their tune as well. It's all in this report's data.

Cracks are forming in U.S. consumer confidence as wages begin to normalize after reaching all-time highs in 2021. Inflation remains high and the labor market is stabilizing, reducing the number of jobs available per candidate and causing more people to curb their job-hopping tendencies.

Check out the consumer and corporate trends driving the M&A market in this third quarter update.

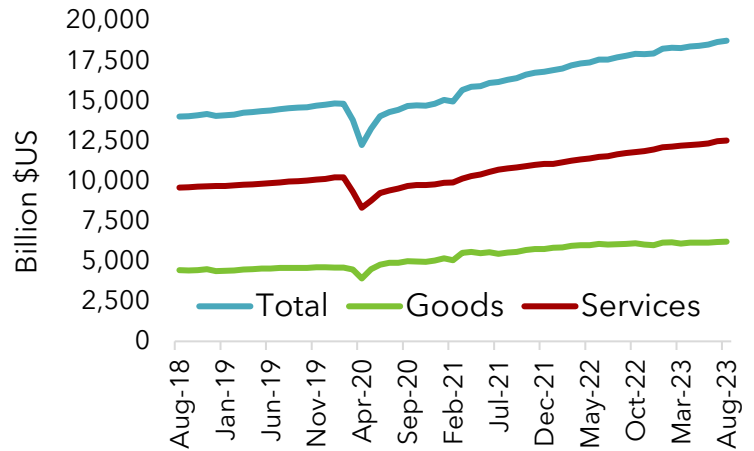


# The U.S. Consumer

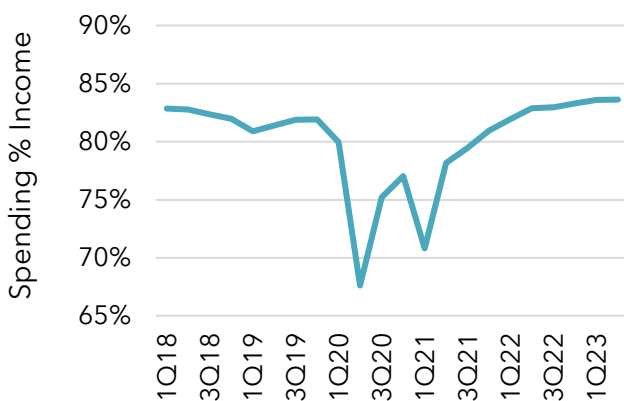
Consumer spending growth is helping keep the U.S. economy on track despite increased prices and borrowing costs.

Real growth spending on services increased +3.0% year-over-year, with real growth spending on goods up +2.0% year-over-year.

### Consumer Expenditures Service vs. Goods

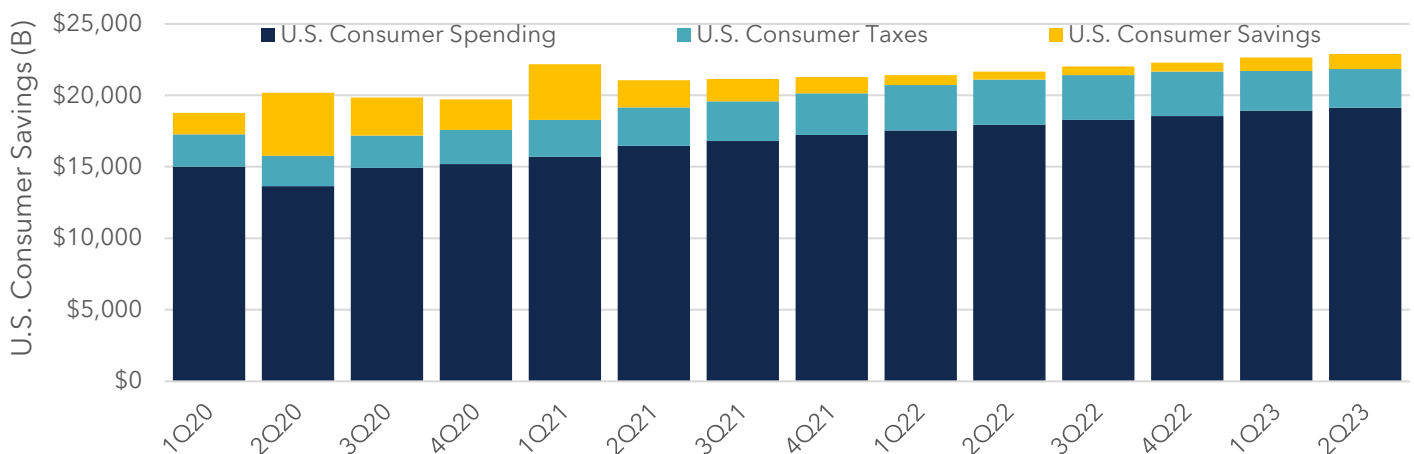
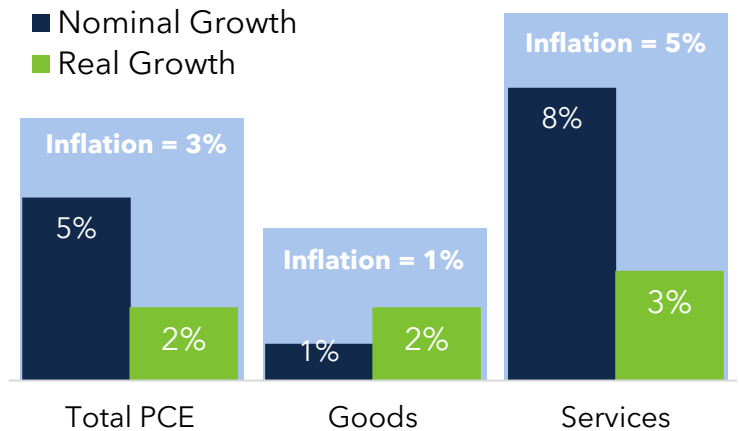


### U.S. Consumer Spending Percent of Income



Source: Bureau of Economic Analysis

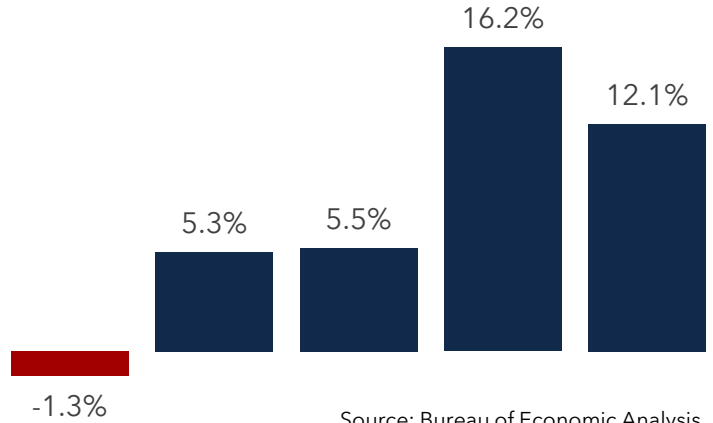
### Real Spending Growth



# Cracks are Forming

Spending growth is exceeding income growth as high inflation continues to take a bite out of U.S. paychecks. Currently, consumer spending is approximately 85% of income and expectations are softening.

## Change in Household Debt 2Q 2022 to 2Q 2023

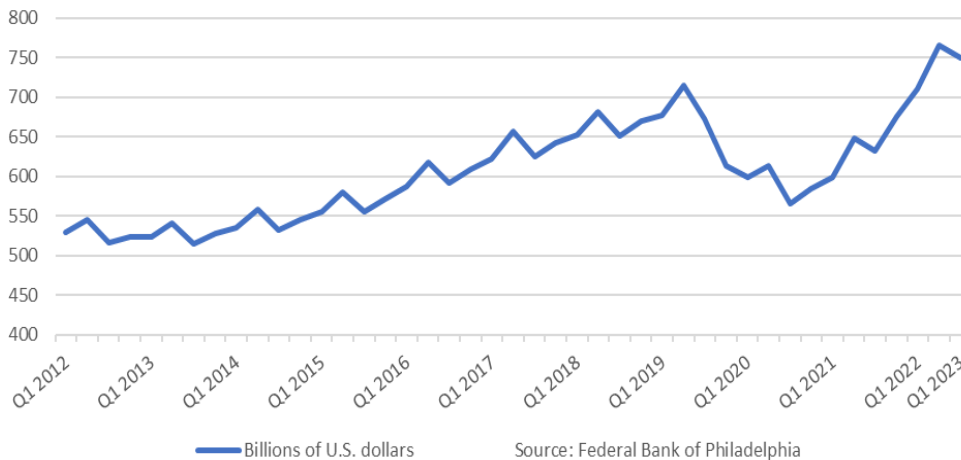


Source: Bureau of Economic Analysis

## Consumer Confidence Index



## Large Bank Consumer Credit Card Balances: Total Balances

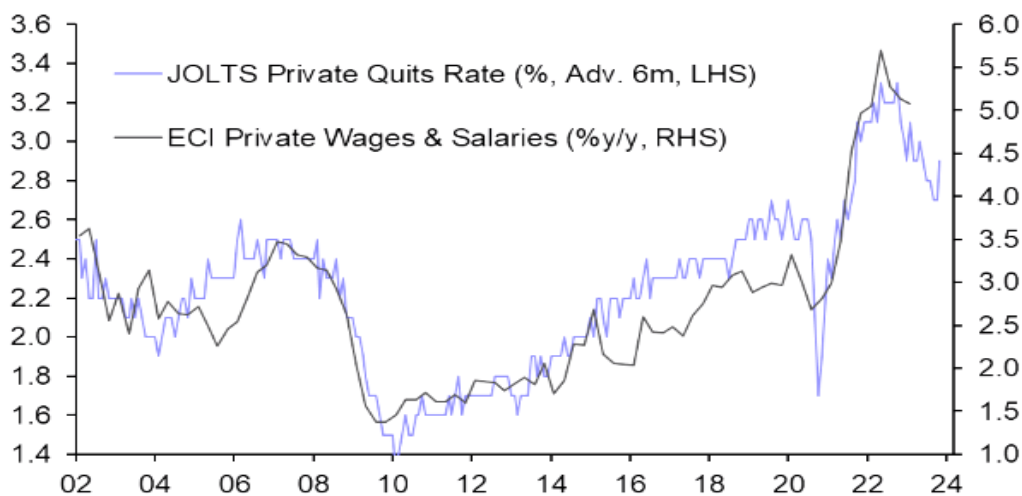


# Cracks are Forming (cont.)

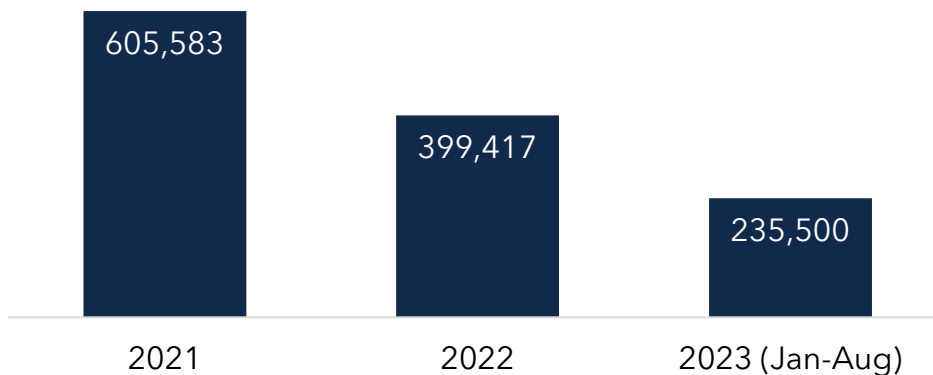
Wage inflation, which reached a high in 2021, is slowing. Labor markets continue to grow; however, at a decelerating rate as the labor market begins to stabilize with only 1.4 jobs for every candidate, down from a high of 2 to 1.

Consumer confidence is showing signs of softening.

### Job Quits & ECI Wage Growth



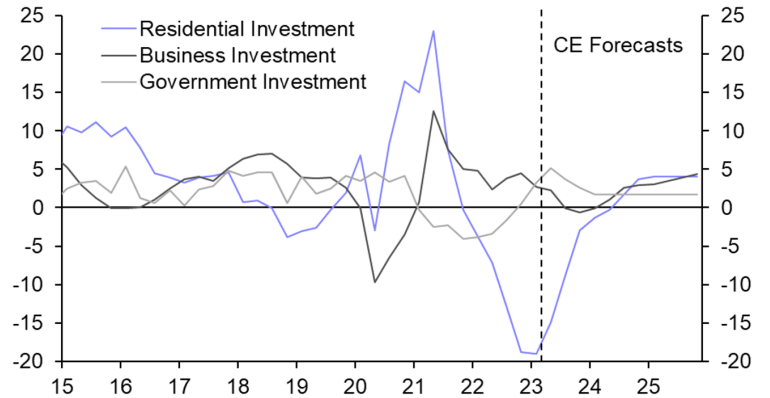
### Average monthly change in non-farm payrolls



Source: U.S. Bureau of Labor Statistics

# Corporate Outlook

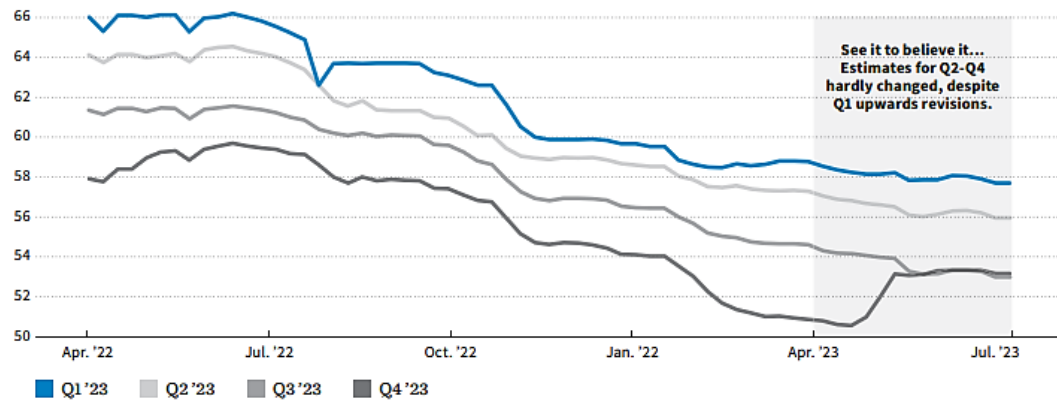
Corporate profits have plateaued, and business investment continues to decline. The tight labor market and softening consumer confidence has limited corporate optimism.



Source: Capital Economics

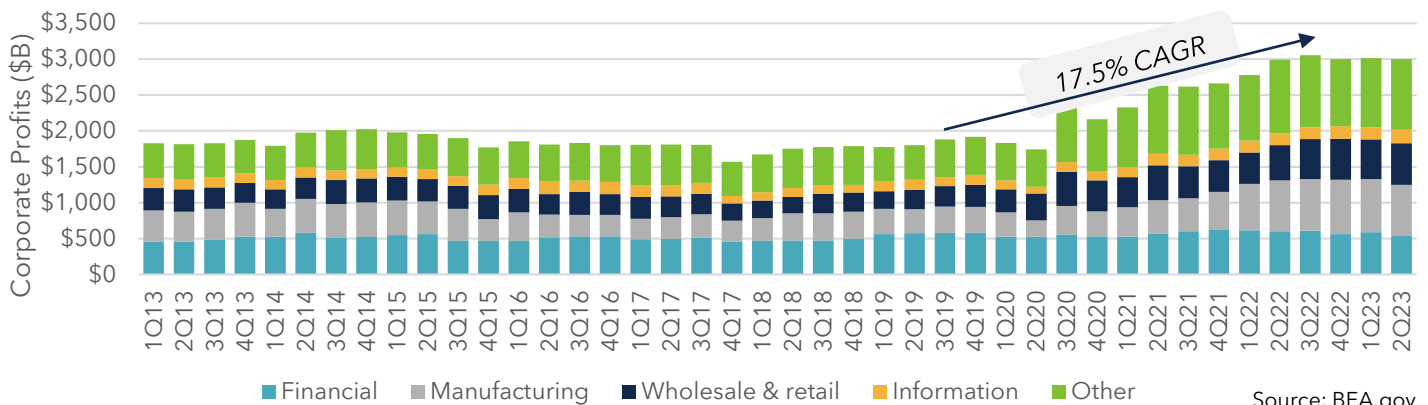
## Profits are Softening

EXHIBIT 1  
Progression of S&P 500 Bottom-Up EPS Estimates  
(2023, \$/Shr)



Sources: I/B/E/S Refinitiv, William Blair Equity Research

## Corporate Profits

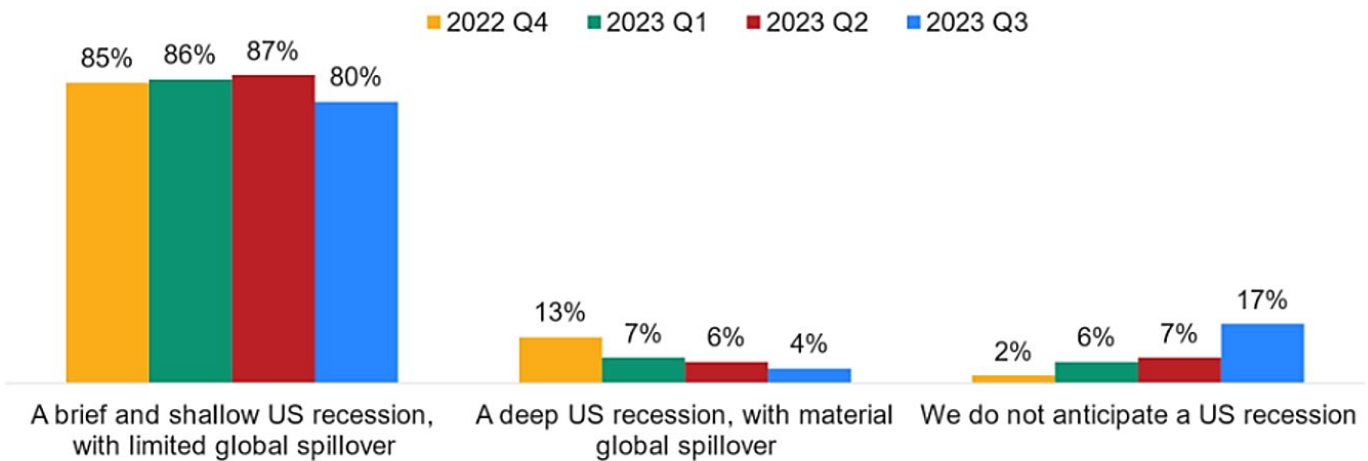


Source: BEA.gov

# Recession Expectations Decline

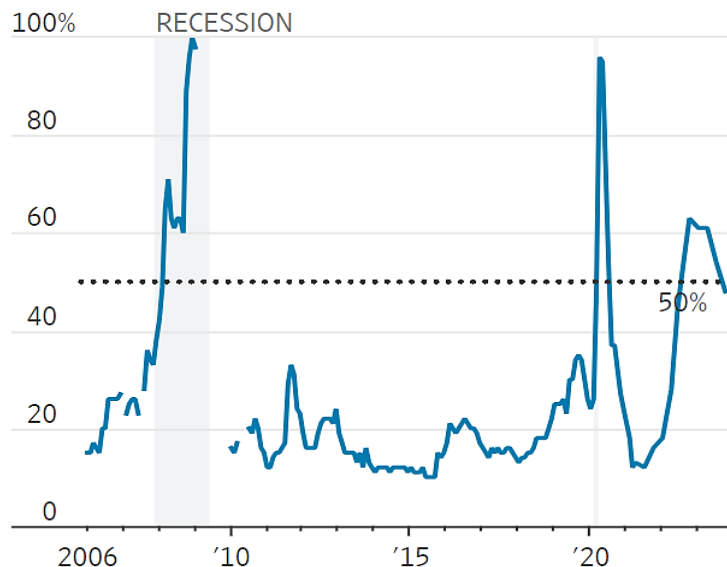
CEO's expectations for a recession declined to 80% anticipating a brief and shallow U.S. recession with limited global spillover (down from a high in Q2 2023 of 87%), 4% anticipating a deep U.S. recession with material global spillover (down from a high of 13% in Q4 2022), and 17% anticipating no U.S. recession (up from a low of 2% in Q4 2022), according to The Conference Board and The Business Council.

## CEO Expectations for Recession Decline Over the next 12-18 months, are you preparing for...



Sources: The Conference Board; The Business Council

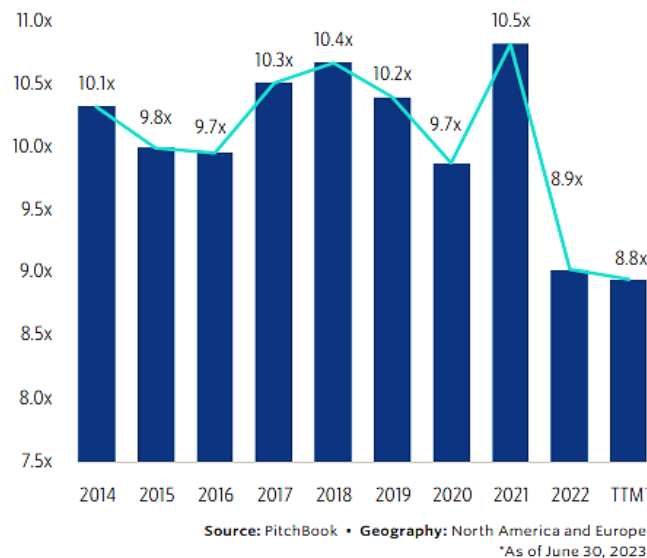
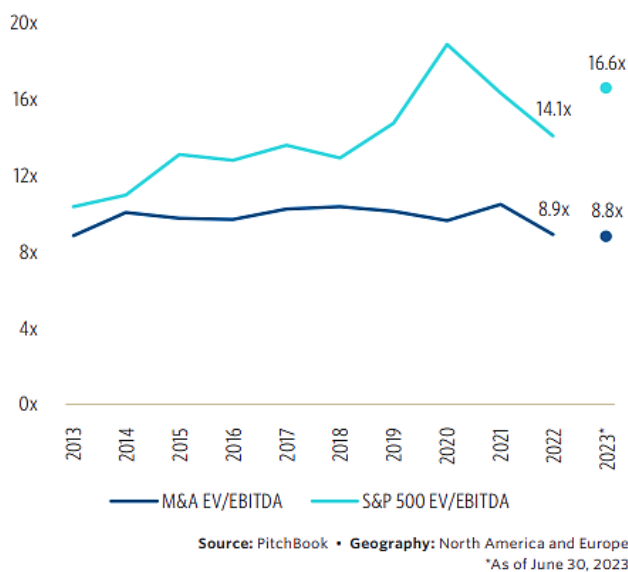
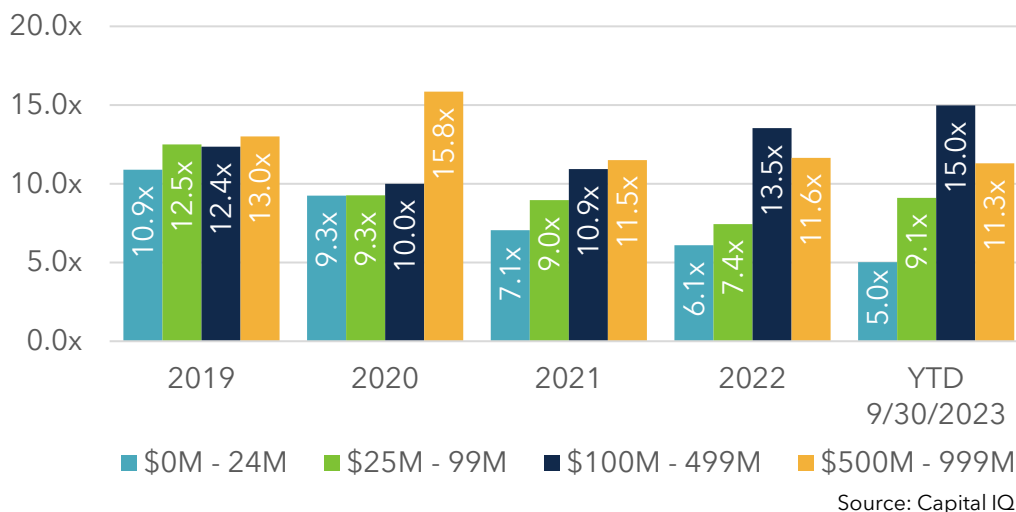
## Economists Agree



# North American Market M&A VALUATIONS

A drop in volume is impacting reported valuations and data reflects a significant gap between seller and buyer expectations. More recent periods show greater valuation declines. A tighter leverage market remains a primary driver of valuation pressure.

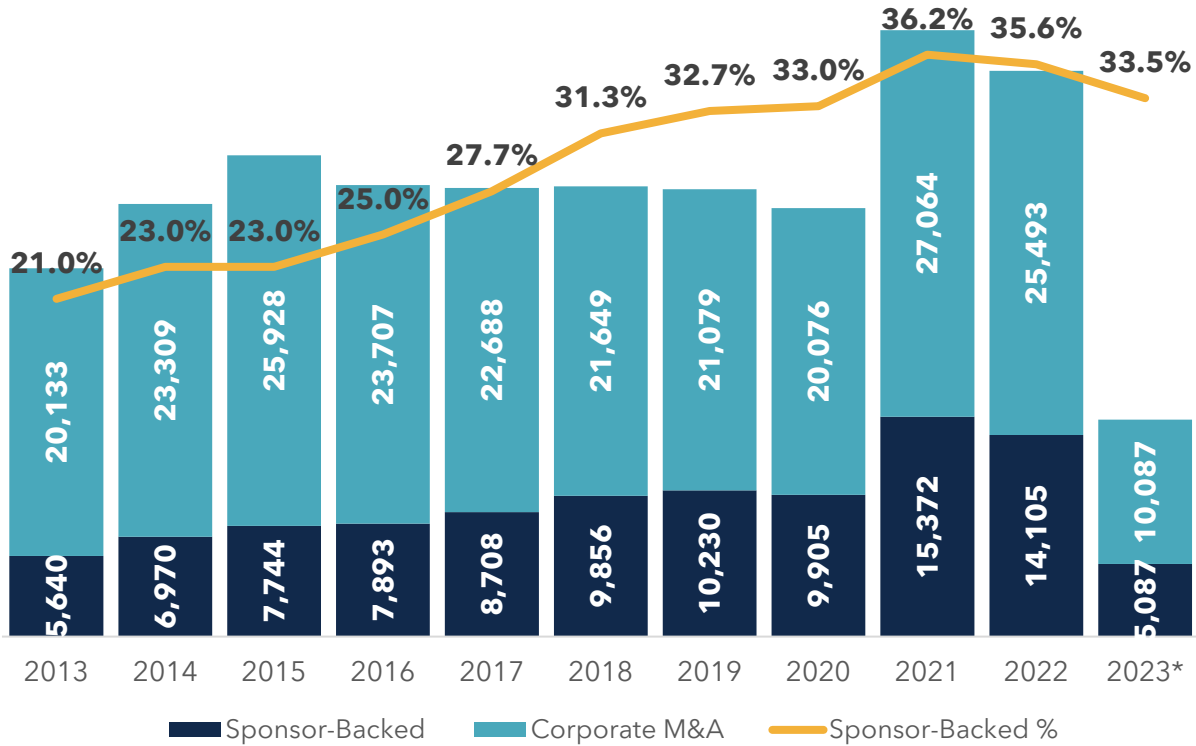
## U.S. Median EV/EBITDA Multiples



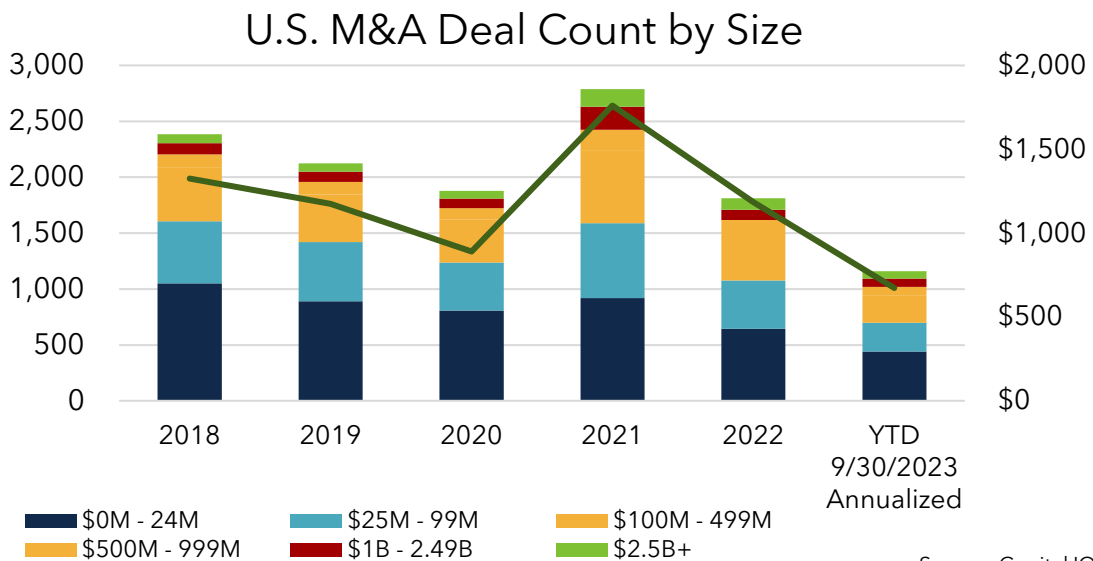


# North American M&A DEAL ACTIVITY

The annualized deal volume is down over 40%. More details yield more varied valuation results, with smaller deals being impacted most. Largest deals are seeing the most significant decline in numbers.



Source: PitchBook, Geography: Global  
\*As of June 30, 2023

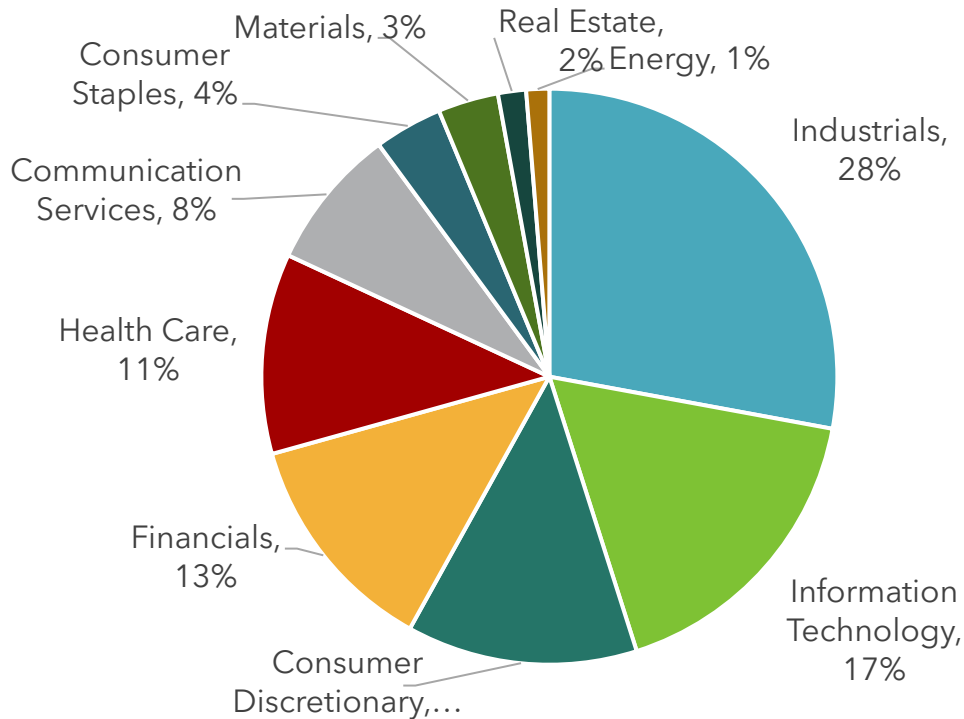


Source: Capital IQ

# North American M&A Deal Activity

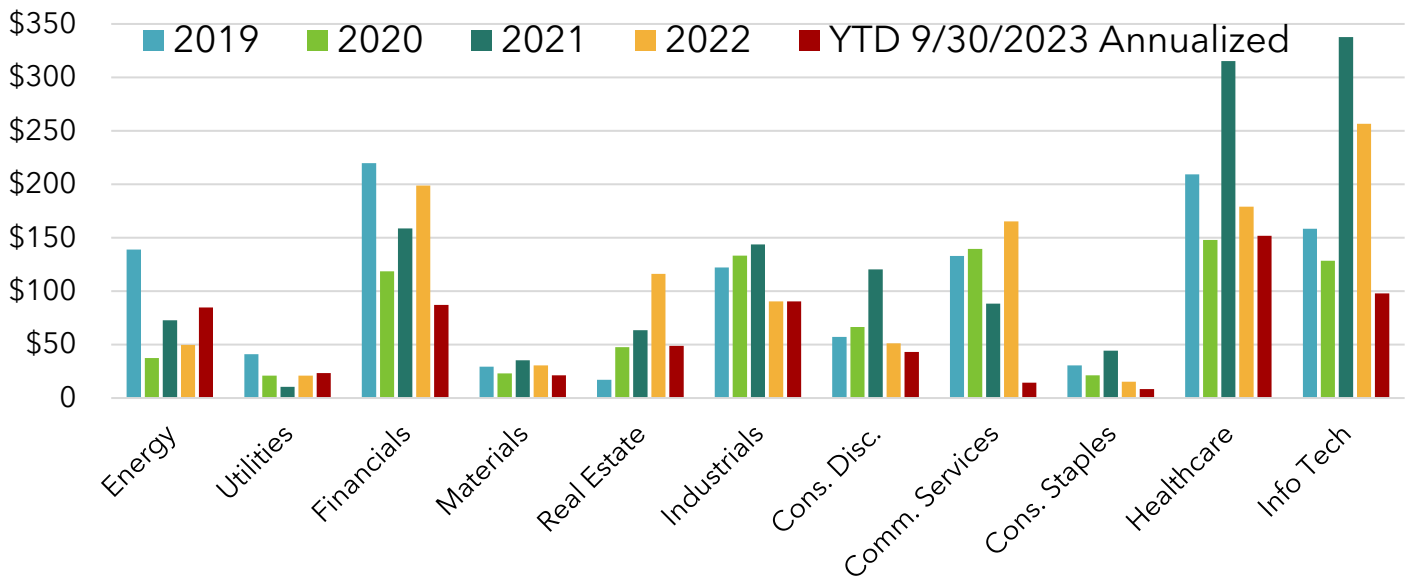
While activity has declined, some segments experienced consistent or even lighter interest. After the COVID surge, consumer segments have seen the most disruption.

## U.S. M&A Deal Count by Sector



Source: Capital IQ

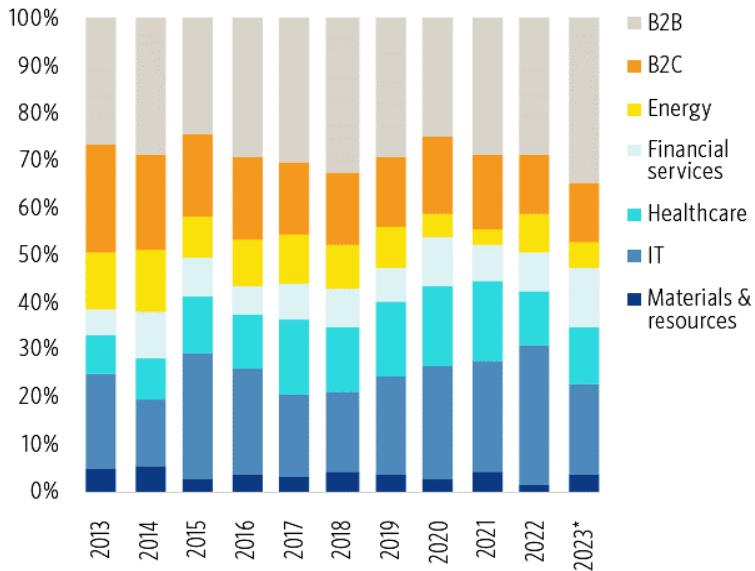
## U.S. M&A Deal Value by Sector



# U.S. Private Equity by Sector

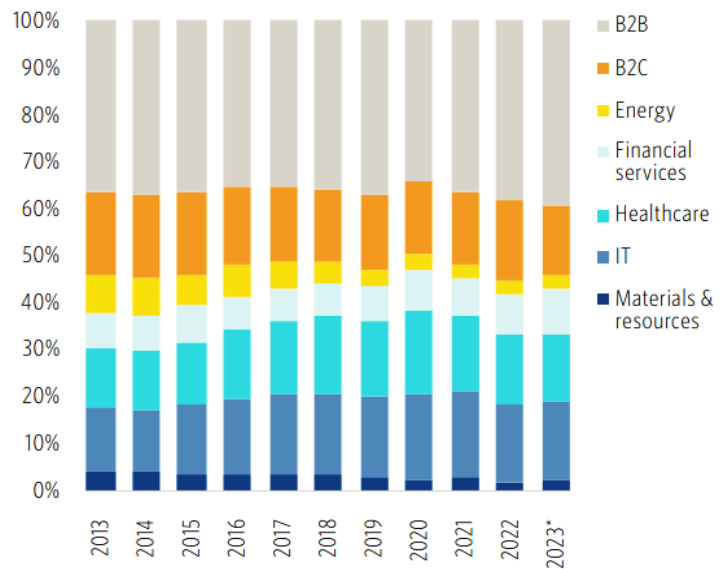
Shifts are appearing in private equity sector as well. Similar declines are apparent in the consumer segments for private equity in the broader market.

## Share of PE Deal Value by Sector



Source: PitchBook • Geography: US  
\*As of September 30, 2023

## Share of PE Deal Count by Sector

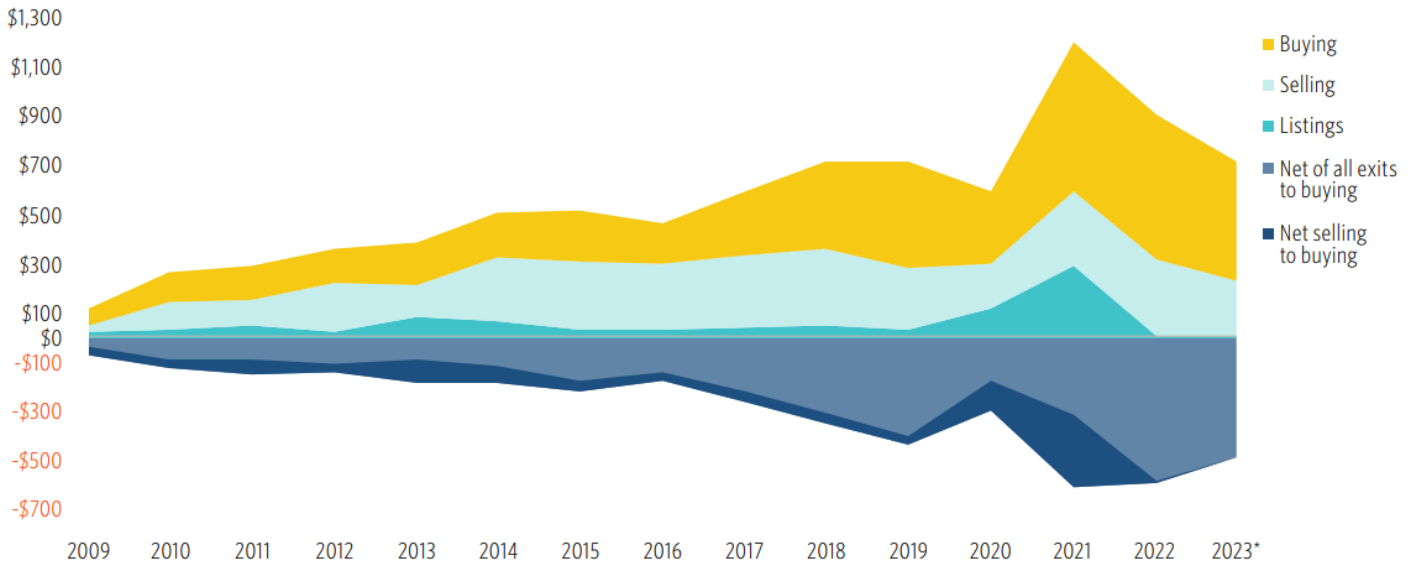


Source: PitchBook • Geography: US  
\*As of September 30, 2023

# Private Equity are Not Sellers

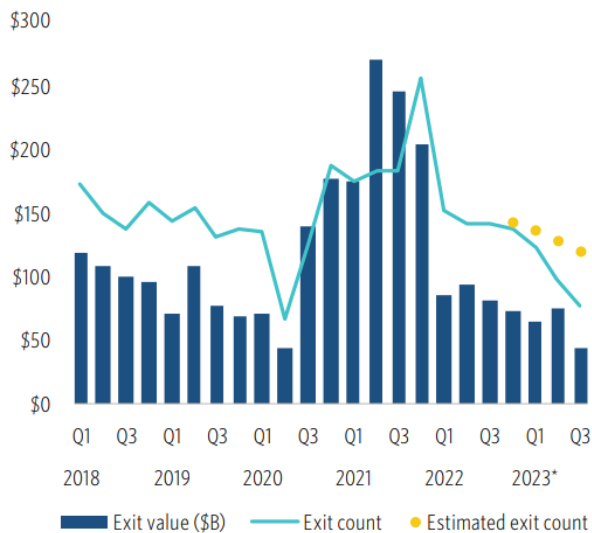
Given market uncertainties, private equity has been reluctant to sell their companies. This continues to build fund dynamics with signature deployments and fewer exits.

**PE buying to selling and the net exit gap (\$B)**



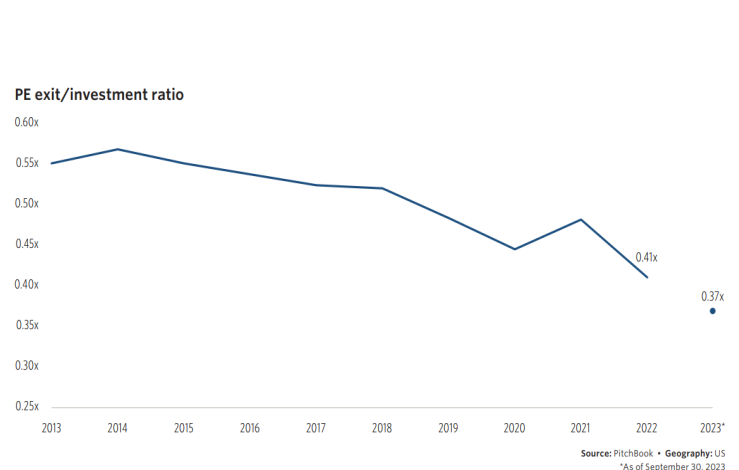
Source: PitchBook • Geography: US  
\*As of September 30, 2023

**U.S. PE Exit Activity by Quarter**



Source: PitchBook • Geography: US  
\*As of September 30, 2023

**PE Exit/Investment Ratio**

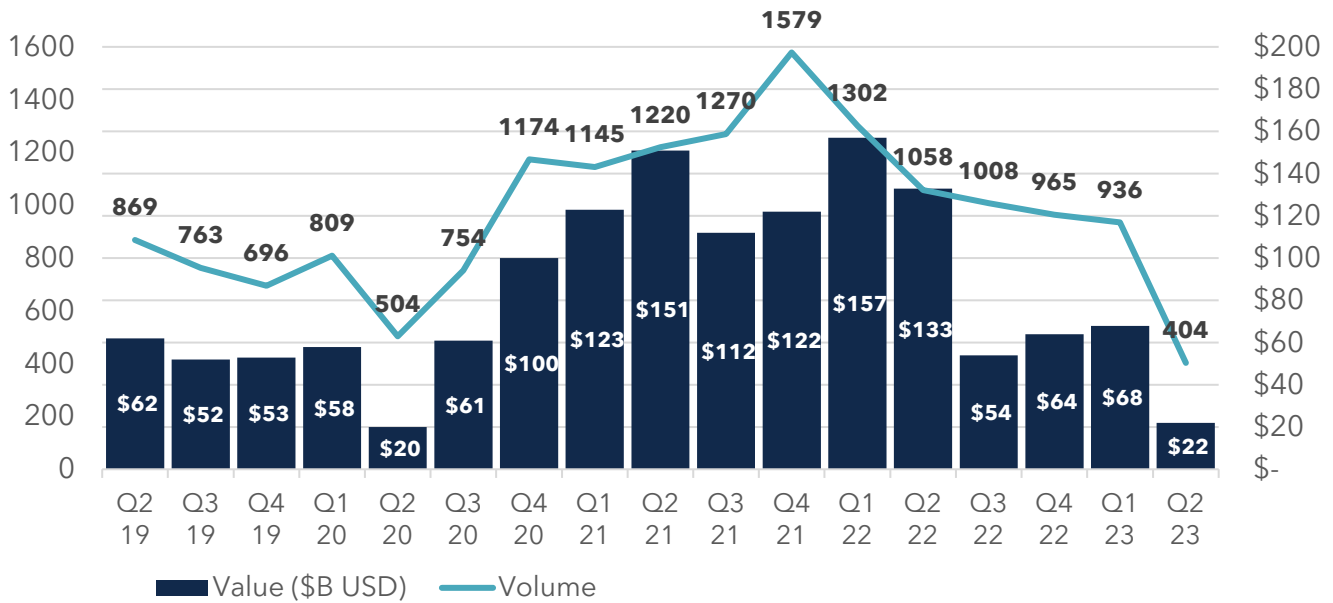


Source: PitchBook • Geography: US  
\*As of September 30, 2023

# Private Equity Activity

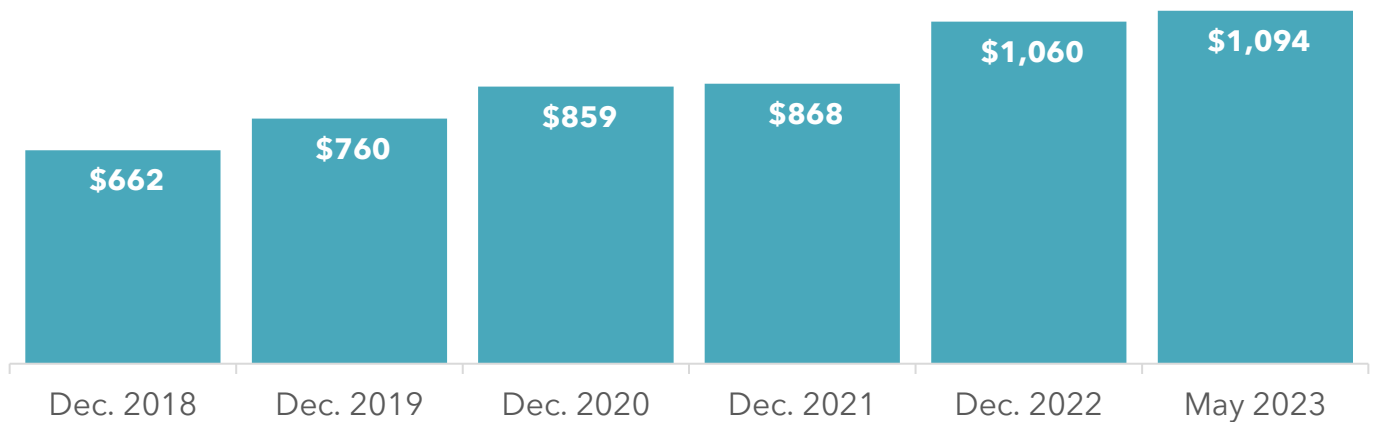
The slowing private equity activity continues to put pressure on the significant amount of undeployed capital held by these lenders.

## U.S. Private Equity Buyout Activity



Source: Preqin, PwC

## U.S. Private Equity Dry Powder (\$Billions)

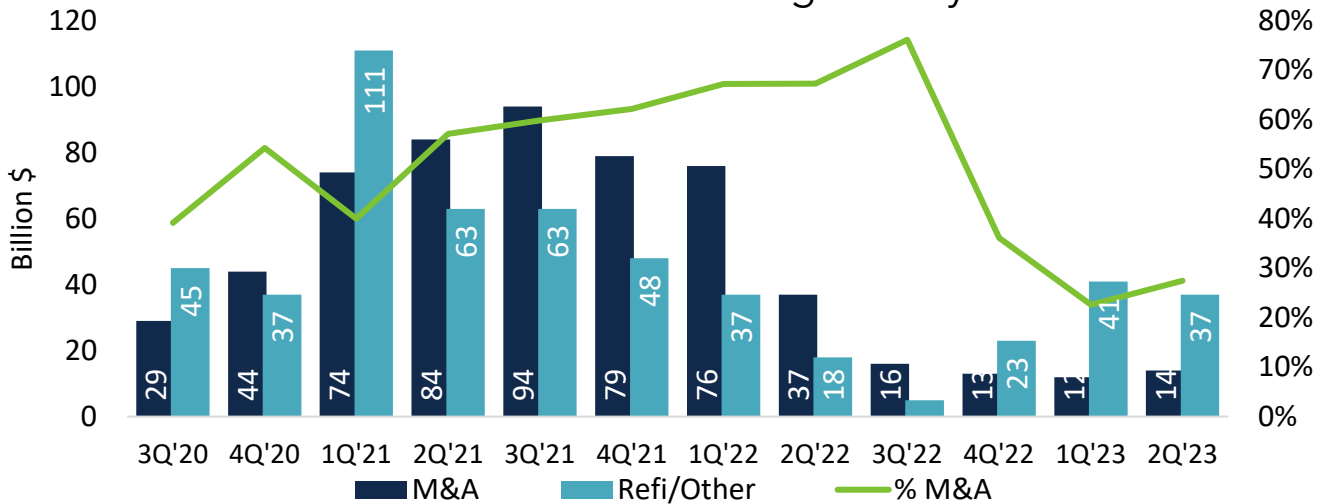


Source: Preqin, PwC

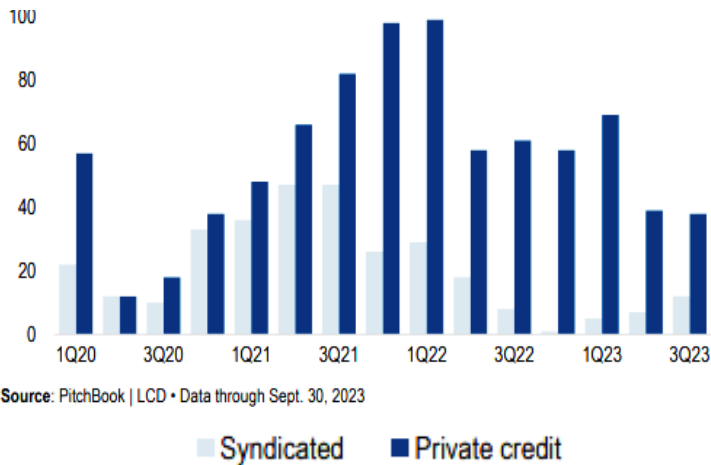
# Leverage Trends

Lending levels were stable in Q2 versus Q1 2023. A decline is anticipated in Q3. Mergers and acquisitions are still at their lowest levels since the pandemic. Q2 reported improved pricing versus A1 and, surprisingly, terms remained stable. Continued interest rate pressure and economic uncertainty will push pricing.

## Institutional Lending Activity

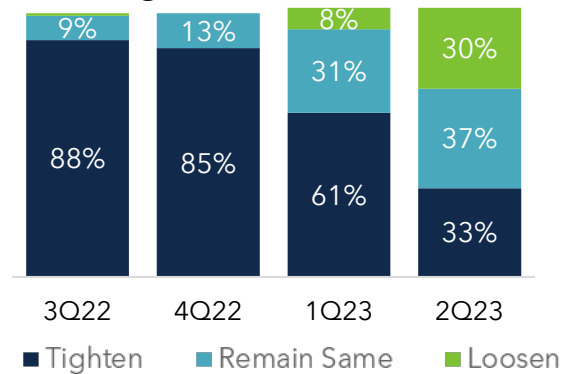


## LBO Count Bank Loans vs. Private Credit

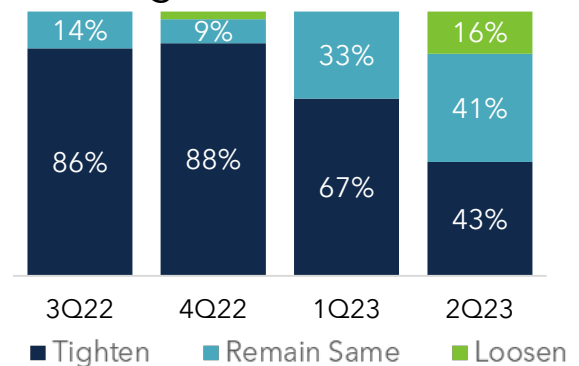


Source: PitchBook | LCD • Data through Sept. 30, 2023

## Pricing



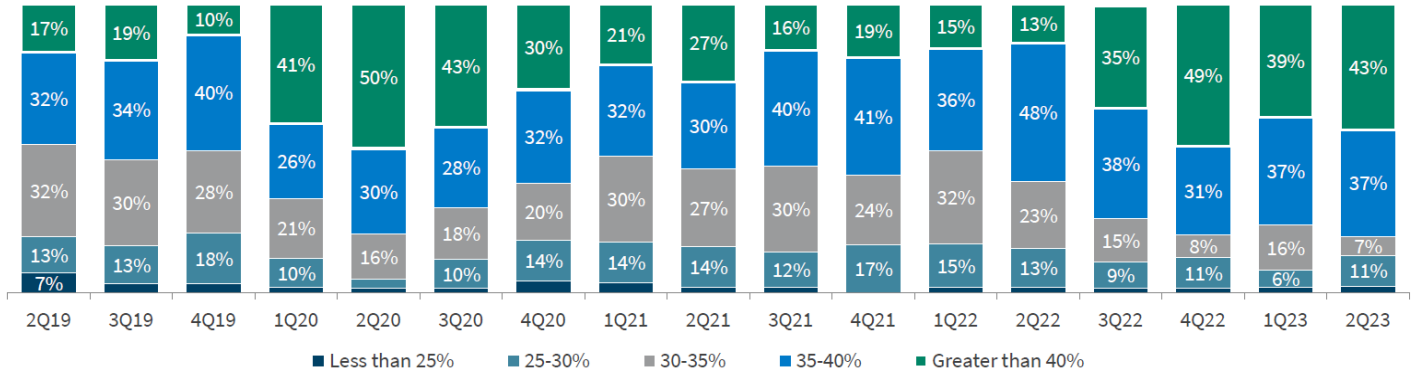
## Leverage and Terms



# Leverage Trends

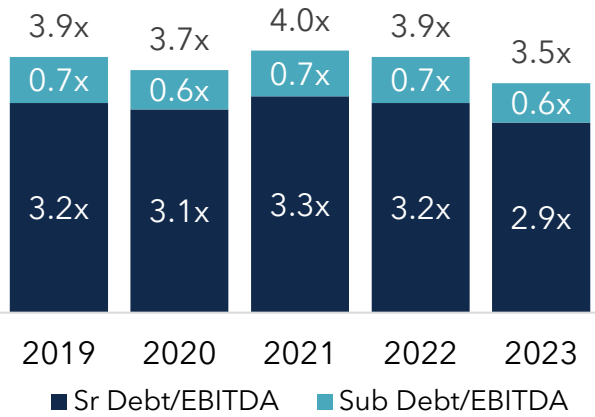
Equity requirements are up dramatically from end of 2022. Decreasing leverage is pushing the need for equity.

## For Transactions Involving a Private Equity Sponsor, What is the Minimum Equity Contribution You Require:



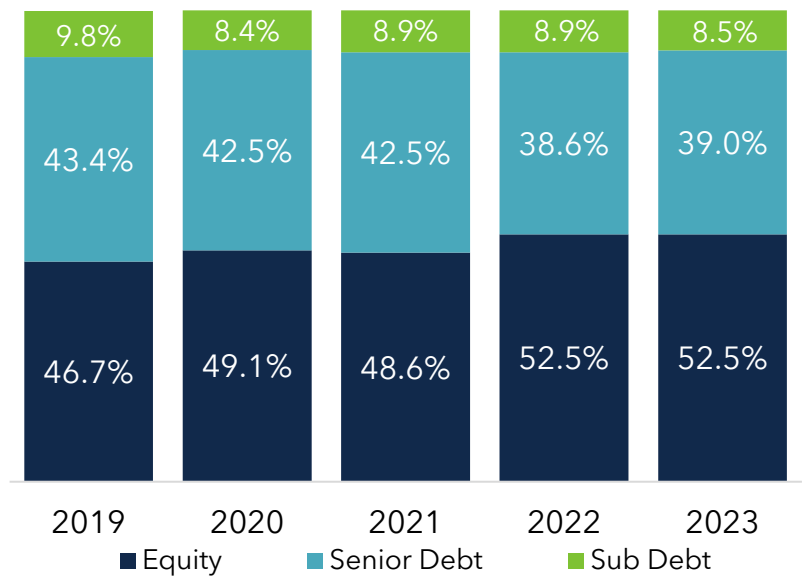
Source: William Blair

## Leverage Split



Source: GF Data

## Capital Stack



Source: GF Data

## About Us

Cascade Partners is a boutique investment banking firm focused on middle-market businesses in industrials, healthcare, business services and manufacturing. Manufacturing and related business services are passions and specialties at Cascade Partners.

With more than 250 years of combined experience, we work with business owners and shareholders to achieve their objectives and explain the impact and opportunity of their options. Our experience extends beyond just being transaction advisors, too. We have been operators, served on boards and made personal investments in services firms. From buy-side and sell-side advisory services to securing growth financing, restructurings or recapitalizing your business, our expertise and insight goes deeper than the economic factors of a deal.

We recognize and respect the long-term impacts of a transaction on our clients' company, employees, family, wealth and personal lives and are committed not only to creating long-term value for companies but to creating transformative solutions for people.

## Contact Us



Rajesh U. Kothari  
248.430.7723  
rajkcascade-partners.com



Jon Doehr  
216.404.7560  
jond@cascade-partners.com



Matthew Miller  
616.988.4796  
mattm@cascade-partners.com



Ron Miller  
616.988.4555  
ronm@cascade-partners.com



Ron Reed  
248.419.1460  
ronr@cascade-partners.com



Daniel Walsh  
513.635.4110  
danw@cascade-partners.com

Detroit  
248.430.6266

Cleveland  
216.404.7221

Grand Rapids  
616.327.2359

[cascade-partners.com](http://cascade-partners.com)