DC advisory

US Private Equity Mid-Market Monitor: H2 2024 & Outlook

A New Phase

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Contents

DC Advisory presents our latest US Private Equity Mid-Market Monitor, discussing the latest trends and themes impacting the private equity market across various sectors within the US, further to our previous edition published in July 2024.

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Executive summary

In our last report, we presented the US M&A market as a Bald Eagle, driving strong momentum and opportunity in US M&A activity through private equity adaptability and adjusting to the 'new normal' of the market. It is already apparent that the US market is picking up, strengthening, stabilizing and beginning to improve. In this report, we are once again presenting the market as a Bald Eagle eclipsed by the sun; representing a new phase with a positive outlook.

Fewer but larger transactions

The M&A landscape has shifted in 2024, as the number of M&A deals has decreased but the size of the individual transactions significantly larger in value. Factors could include regulations, high interest rates and private credit.

Take advantage of the improving M&A environment

M&A activity has been slower than expected but as interest rates decline and the economy stabilizes, we expect that 2025 could be a particularly strong year. There is a significant amount of pent-up demand which could lead to an increase in deal-making, specifically in sector-specific cross-border opportunities in Technology, Healthcare, Infrastructure and Industrials. We suggest clients continue to prepare for and begin to take advantage of the improving M&A environment.

"We are optimistic that M&A activity will continue its momentum and steadily build back alongside the hopeful macroeconomic outlook on the horizon with a focus on lower inflation, lower interest rates, and GDP growth. The lower levels of activity have created pent-up demand and supply, predominantly in private equity. Corporates are fast-tracking growth and reinventing their businesses. Additionally, quality assets are anticipated to come to market which bodes well for buyers. Behind the scenes, we perceive an uptick in activity among sellers, with preparations and engagements proceeding. It is not a matter of if M&A will make a comeback, but a matter of when, and we should all continue preparations to take advantage of the next phase"

Bill Kohr, US CEO

Sponsor coverage

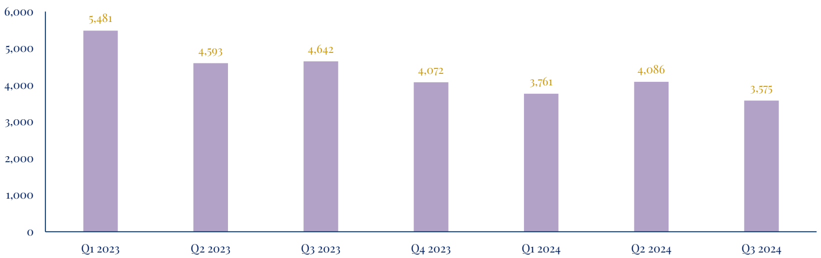
What you need to know

- 2023 US private equity deal volumes approached pre-pandemic lows with 2024 volumes stabilizing as the year progressed. We expect 2023/2024 to be the nadir of the cycle and for volumes to increase as the Federal Reserve's current anticipated dot plot easing cycle plays out in to 2026
- The increased pressure on private equity funds to return capital to LPs now remains, driving continued active consideration of inbound interest at today's current asset value levels, despite the prospect of an improving sell side marketplace
- An interesting dynamic has developed today, where the top-quality assets at one end of the spectrum, and the lower quality assets at the other end, have the most to lose in a market should a wave of good quality assets come to market in H1 2025. To "beat the rush", many funds are actively looking to "go now" with their portfolio companies in these asset tiers, especially in scenarios where there is bona fide and qualified inbound interest today
- For all the other good quality assets in between that are coming up for exit, the prospect of increased growth and resulting financial impact of "lower for longer" interest rates, combined with the availability of credit at improved terms in the current marketplace, is causing some substantial deliberation and potential recalibration over when to launch a sale
- Fortunately, throughout all this preparation, the economic backdrop has remained strong for most private equity owned businesses, and the prospect for an economic "soft landing" should help fuel the anticipated upcoming uptick in M&A volumes

Trends in M&A

- For now, significant valuation gaps and supply demand imbalances remain, making broad auctions risky to undertake. Pre-sale process "price discovery" continues to be standard practice, leading to less traditional auction processes and the number of corporate transactions gaining share of the overall market
- Advisory-led processes have had to continue to adapt, characterized by:
  - Increasing solicitation and acceptance of "preemptive" transactions from corporates before processes begin
  - Continued aggressive activity from financial backed strategics limiting sponsor platform participation in sell-side processes
  - Many current processes not progressing past the initial exploration phase and never going "broader" to a larger group of sponsors
  - A limited number of PEs being included in buyers lists, even in "broader processes"
  - A significant amount of deal preparation and analysis having been completed now and funds having assets ready to sell to bona fide, qualified targeted approaches
  - Active recalibration of the potential timing of a sale due to the impact of the Federal Reserve's actions, new financial projections for 2025 and 2026, and the potential impact of the upcoming election, having to be factored into exit timing and anticipated valuation

Figure 1: Private Equity Deal Activity, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

Q4 and beyond

We expect a significant H1 2025 increase in activity for US PE exits and capital deployment with an eye to "priming the pump" for the next round of 2026 new fund raises

The fear for private equity funds remains that a formal process launched in this environment may fall short and leave the fund with a potentially tainted asset as markets recover

The potential for a glut of sell side inventory coming to market, **creating buyer attention deficits, has now begun to impact investment committee decisions on timing and go to market strategies**

The prospect of a rapid expansion in sell side inventory in 2025 may cause a more historically normalized broader auction marketplace to regain control, tapping into a broader universe of buyers who continue to maintain large reservoirs of "dry powder"

Even with the potential for many significant headwinds, especially the US election and the Federal Reserve's continued attempt to walk the tightrope "balance of risks", the recent rate cut, and overall more accommodative stance have caused the crossing of a psychological barrier for buyers and sellers. **In our opinion, the "capital deployment and exit starting gun" has gone off**

"Despite Q3 2024 US M&A transaction volumes coming in flat to down versus Q2 (see Figure 1), the M&A market "starting gun" appears to have gone off with the Federal Reserve's announcement of a more accommodative stance midway through the quarter, culminating in a 50-basis point cut on September 18th.[i] We expect the M&A market to move sideways for a quarter or two, while the country and the M&A market digest an upcoming election outcome and the impact of the Federal Reserve's "lower for longer" stance. But it is already evident that, behind the scenes, these events have triggered final preparations for the launch of a significant amount of pent-up sell side inventory during 2025"

Dan Graves,
Managing Director and
Head of Sponsor Coverage

Aerospace, Defense & Government Services

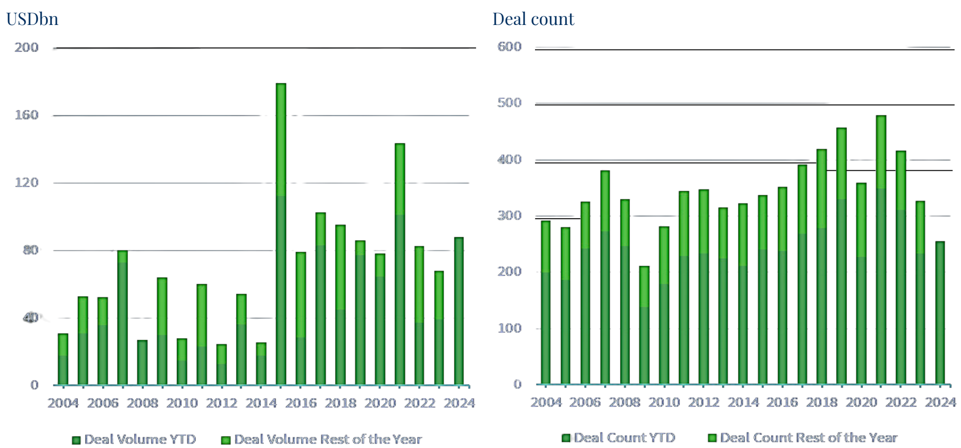
What you need to know

- North America Defense and Government transaction volumes remained largely stable from Q1 through Q2 2024. Despite the muted quarterly data, total deal volume in the sector increased significantly on a year-on-year basis with U.S. based transaction activity increasing by more than 35%[iii]
- Financial sponsors and strategic buyers accounted for a similar share of total Defense and Government M&A activity in Q2 compared to Q1 2024, but the return of strategic buyers was a significant factor in the year-on-year increase described above[iv]
- Government Technology and Services ("GT&S") transactions accounted for the highest deal volume this quarter, and only Defense related transactions saw a modest decline from Q1 to Q2 2024[v]

Outlook

- The November election looms large. While Defense valuations held stable from Q1 to Q2 2024, in our view, spending pressures in Washington and the implicit uncertainty of the upcoming election cycle have outweighed investor demand from the burgeoning conflicts in Europe and the Middle East
- We anticipate that financial and strategic M&A activity will continue to prioritize the Government Tech & Software markets through the year's end
- Calendar Q2 2024, the third quarter of the U.S. Government's fiscal year, marked the first decline in monthly investment outlays since calendar Q1 2023. We expect this to continue due to geopolitics and slower budget growth

Figure 2: North America Defense M&A, Deal Volume & Deal Count



Source: Mergermarket;*from 2004 to 09/16/2024, https://mergermarket.ionanalytics.com/content/1003935046?utm_source=Classic+Service&utm_medium=Classic+Content&utm_campaign=Redirect&utm_term=ContentOpen&intelId=intelcms-6b47bv

Key trends to watch

An increasingly kinetic global threat environment and the acceleration of geo-political and economic rivalries continue to fuel defense spending[vi] and we see a persistent focus on innovation and a transition to agile technology platforms across the Defense and GT&S ecosystem

Despite higher interest rates and the increased cost of capital, **financial sponsors remain among the most active investors and sellers in the GT&S space,** accounting for more than 60% of total transaction volume through H1 2024[vii]

Critical demand for innovative technology development and mission assurance capabilities continues to drive strategic and financial buyer interest despite the limited runway afforded by Department of Defense budget

Cloud deployment and the accelerated adoption of artificial intelligence and machine learning (AI / ML) are driving significant government contracting opportunities for companies specializing in cyber, cloud, agile development, AI / ML, and data analytics

Strategic buyer appetite for M&A continues to elevate, particularly for public companies in the GT&S market, but remains tempered by a highly selective lens

The notable surge in the GT&S index through H1 2024 has enabled these public players to leverage their near-historic valuations to more aggressively target private companies

"With the number of deals greater than $1bn in enterprise value doubling in the first half of 2024 versus the same period last year;[ii] and continued investor focus on key strategic areas, DC Advisory's Aerospace, Defense & Government M&A outlook remains bullish. Financial and strategic M&A strategies will likely seek continued alignment with the funding landscape (e.g., C4I, AI / ML, Cyber, Cloud) and prioritize targets whose acquisition will broaden customer exposure, enhance or expand capabilities, and drive material inorganic growth"

Ellis Chaplin
Managing Director
ellis.chaplin@dcadvisory.com

Chris Oliver
Managing Director
chris.oliver@dcadvisory.com

Business & Tech-Enabled Services

What you need to know

- The highest quality Business Services assets should continue to command premium multiples in a market that has offered fewer premium opportunities

Outlook

- We believe Services businesses focused on resilient end-markets like transportation, power, renewables, water, environmental, and healthcare are most attractive to buyers
- Service delivery and client/customer value-add are, in our view, are being driven by tech-enabled / digital / software solutions
- Selected Business Services sectors (e.g. TICC) should continue to demonstrate premium growth performance driven by increasing regulatory and consumer standards
- Acceptance of the "new normal" of borrowing costs has, in our view, somewhat calmed broad concerns, but rates and rate uncertainty continue to be among the biggest concerns among the buyers
- We expect a building backlog of PE portfolio companies that are positioned to capitalize on increasingly attractive market conditions

Key trends to watch

Global private equity firms are holding record levels of dry powder

"Overall market sentiment has modestly improved among both strategic and financial buyers and 2024 has seen an uptick in higher quality transactions"

Dan Skolds
Managing Director
dan.skolds@dcadvisory.com

Consumer, Leisure & Retail

What you need to know

- We believe overall M&A activity in the Consumer sector remains subdued as the uncertain economic environment has resulted in cautious behavior by buyers and sellers
- While the job market has shown continued strength[viii], in our view, the ongoing impact of inflation on household budgets has resulted in consumers deferring discretionary purchases and trading down from more expensive brands

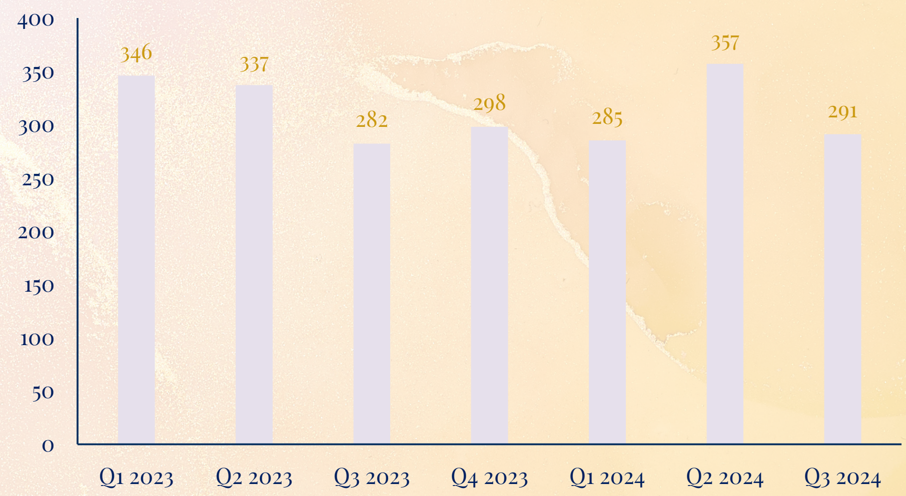
Outlook

- We believe consumer demand patterns should normalize over the next six to twelve months as inflation subsides resulting in increases in real wages for most consumers
- PE firms with strong consumer brands in their portfolios should be prepared to come to market as strategic and financial buyers have significant dry powder for acquisitions
- Consumer brands with secular growth stories and strong cash flow should be rewarded with premium valuations

Key trends to watch

M&A activity is strongest in the personal care, beauty, food and beverage categories where consumers continue to spend on lower priced consumable items and acquirers are more willing to underwrite long term secular growth stories

Figure 3: Number of Consumer, Leisure & Retail deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

"We expect the M&A environment to continue to improve within the broader Consumer sector as the after-effects of the pandemic further recede, enabling buyers and sellers to agree on appropriate valuations"

Mark Goodman
Vice Chairman
mark.goodman@dcadvisory.com

Beauty & Personal Care Products

What you need to know

- Skincare, hair care and high-end fragrance brands are of strong interest to a broad set of strategic investors and consumer focused private equity investors
- There is a strong pipeline of assets that are performing well and reaching attractive scale

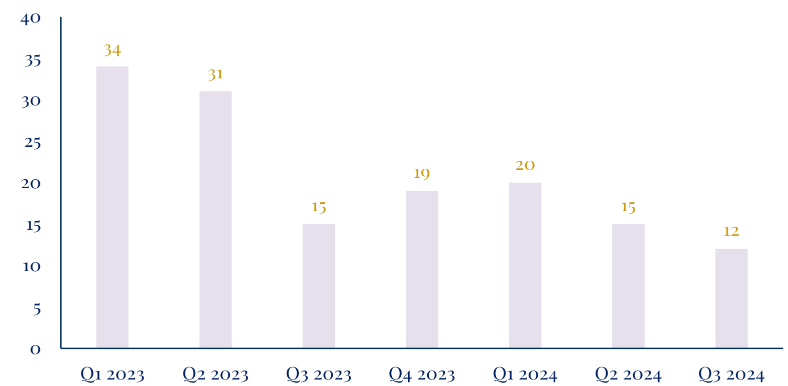
Outlook

- There is strong interest for contract manufacturers of beauty and personal care products from traditional private equity funds that see an opportunity to roll-up assets in this fragmented space
- Buyers are raising the bar on what is needed to attract top multiples, this translates into a greater focus on profitability
- We expect to see a new set of brands achieving strategic scale and private equity assets ripe for an exit

Key trends to watch

The aesthetics and wellness services space (Botox, laser hair removal, facials, etc) is experiencing strong growth as consumer acceptance and education on these services broadens creating tremendous investor appetite

Figure 4: Number of Beauty & Personal Products deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
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DC Discusses: Private equity sees shining opportunity in Beauty & Personal Care contract development and manufacturing

Our Consumer, Leisure and Retail and Industrials teams discuss the outlook for Beauty & Personal Care contract manufacturing M&A activity.

Read here

"The US Beauty & Personal Care sector shows continued resiliency, in particular in the premium segment. There are several assets that are ripe for an exit in this space. It is likely that a lot of potential sellers of brands or CDMOs are judging on best timing, and many are holding back for now. It is really a matter of patience, but we expect M&A activity for brands and CDMOs will pick up as soon as the general signs are positive. With interest rates coming down that may be sooner vs later."

Luc-Henry Rousselle
Managing Director
luc-henry.rousselle@dcadvisory.com

Education & EdTech

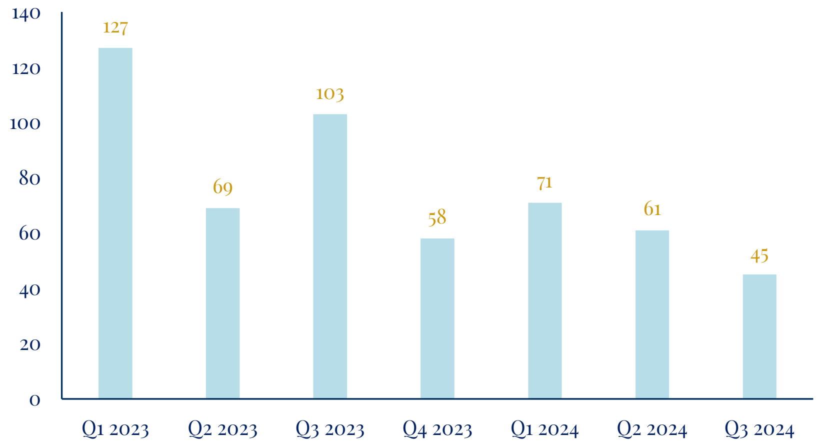
What you need to know

- In the EdTech M&A and private capital markets, we are seeing activity levels picking up, especially with greater visability regarding decreasing inflation and interest rates
- With businesses moving to incorporate AI into their product offering, we expect proof points to demonstrate successful product launches and transitions will become increasingly important
- Education companies selling to kindergarten to 12th grade (K-12) school districts must still demonstrate strong product stickiness and a solid grasp of their customers' funding sources. Investors remain focused on the changing funding environment and we believe are increasingly wary of higher customer turnover due to a lack of funds

Outlook

- There is significant pent-up demand for education and edtech companies from buyers who must deploy capital
- We have seen strong interest in several recent sell-side processes that we have launched in late summer

Figure 5: Number of Education & EdTech deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
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Key trends to watch

We are seeing a high demand for healthcare training companies, as all healthcare professionals, including nursing, physicians and allied health are experiencing workforce shortages[ix]. As a result, healthcare systems need to implement cost-effective strategies to ensure their providers fulfill continuous licensure training requirements while also aiding in the recruitment of new professionals

As Elementary and Secondary School Emergency Relief Fund funding has expired[x], we expect K-12 schools to maintain their focus on student behavioral health and well-being, which has remained a priority. The growing mental health crisis in the US, especially among children and teenagers[xi], has increased the demand for schools to provide behavioral health services, address student concerns and emphasize social-emotional development

Credentialing and training programs for skilled trades and professions that don't require a bachelor's degree, in our view, remain essential pathways for upward mobility. From 2019 to 2022, college enrollment dropped by 8%[xii], while labor shortages have continued across various industries in the US[xiii], resulting in a high number of job vacancies

"We remain optimistic about the rest of 2024 and beyond as we see activity levels increasing dramatically. Although some companies are still focusing on execution over pursuing sale processes, we anticipate several will come to market by early 2025. Companies with a track record of solid growth and strong margins continue to attract interest from both private equity and strategic buyers"

Justin Balciunas
Managing Director
justin.balciunas@dcadvisory.com

Jason Reyes
Director
jason.reyes@dcadvisory.com

GP Strategic Advisory

Market dynamics that are impacting the alternative asset management industry

- The alternative asset management industry continues to face several macroeconomic headwinds – probably the most widely discussed and impactful of these headwinds is the continued challenges of the fundraising market and the concomitant tough exit environment
- While the impact of the denominator effect has likely dissipated due to strong performance of the public markets, the difficult exit environment has continued to weigh on fundraising
- Delayed exit activity and associated distributions have created liquidity constraints for LPs (as well as for GPs). These liquidity constraints have been exacerbated by sustained levels of capital calls, which have continued despite the decrease in realizations
- Although many are optimistic that fundraising in 2024 will be stronger than it was in 2023, it is still expected that fundraisings will take longer, and require more due diligence and negotiation than they did a few years ago

Impact of these market dynamics on deal activity

- The headwinds facing the alternative asset management industry have been a catalyst for certain types of deal activity across the GP strategic advisory landscape:
  - At the GP/management company-level, there is an entire market for providing capital and strategic benefits to GPs through **GP stake sales and non-dilutive financings.** While these transactions have been popular for the past several years, they can be particularly useful in challenging markets like the present. Proceeds can be used for most business applications, including funding of GP commitments, growth capital, liquidity, and ownership realignment. GP stake sales, in particular, can also typically provide a variety of strategic benefits
  - Similarly, there is a market for **NAV-based, fund-level financings** that can be used by GPs to raise capital without having to sell portfolio companies. Proceeds can be used to provide growth capital in funds with limited dry powder and/or to accelerate liquidity to LPs, both of which can help offset LP liquidity constraints
  - There has also been an increase in **consolidation** activity across the alternative asset management industry, as large asset managers and financial institutions have used M&A to drive AUM growth and expand investment capabilities

Key trends to watch

GP-level financings should continue to increase in prevalence, and will likely become an even more common method of funding GP commitments and other growth initiatives

There will likely **continue to be an influx of new investors** and dedicated capital for investment across the spectrum of transaction types and structures

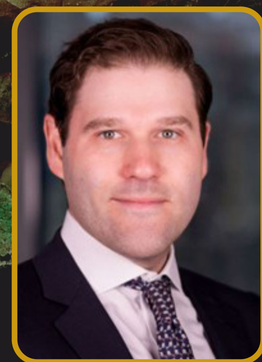
Consolidation in the alternative asset management industry will likely remain robust, as M&A will be an increasingly important driver of AUM growth

We believe that there will be **a significant amount of secondary sales of GP stakes,** as GP stake investors will look to provide liquidity to their investors

"The widespread use of certain financial 'technology' is transforming, and together with its knock-on competitive effects, will continue to transform the alternative asset management industry"

Hal Ritch
Co-Lead
hal.ritch@dcadvisory.com

Donato de Donato
Co-Lead
donato.dedonato@dcadvisory.com



Jacob Berman
Director
jacob.berman@dcadvisory.com

Healthcare

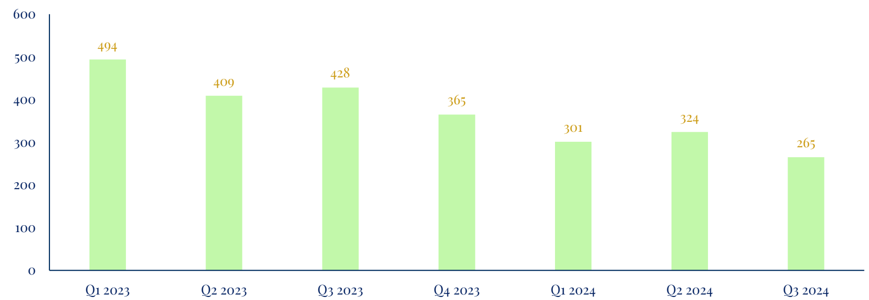
What you need to know

- Rising inflation, interest rate fluctuation, increased labor costs, and cyber security threats can all pose challenges to the Healthcare M&A market. Despite these headwinds, we believe the overall outlook for Healthcare M&A remains positive and anticipate a surge in activity in 2025
- M&A activity in the first half of 2024 was largely muted as the market reset following the COVID bubble when valuations exceeded previously all-time high levels. Bid ask spreads remained a major hurdle and resulted in a lower volume of closed deals in 2024. Seller expectations have since recalibrated to the new normal following the post-COVID bubble and many expect to now see a return to high volume of closed deal activity
- Valuation multiples realigned to the financing constraints imposed by the “higher-for-longer” interest rate environment and a return to multiples more in line with pre-COVID levels. We believe non-traditional financing and deal structuring approaches will continue to be employed in response to these broader macroeconomic factors, and expect further alternative deal structuring in response to legislative and executive actions that may be implemented at the federal and state levels
- Despite these challenges, the industry continues to be resilient with M&A activity expected to ramp in the near term. There is a significant amount of capital that has built up over the last two years while investment hold periods approach end of life timelines. In addition, increased M&A activity is driven by ongoing tailwinds from demographic trends, the shift from fee-for-service reimbursement into value-based care arrangements and continued innovation towards the quadruple aim of:
  - enhancing patient experience
  - improving population health
  - reducing cost
  - improving the work life balance of healthcare providers

Outlook

- Despite the decline in 2024 M&A activity, when compared to the same period 2023, we observe companies executing on growth plans to combat cost inflation, higher interest rates, and labor constraints while also completing the necessary integration following a significant amount of inorganic growth over the last few years
- Cybersecurity threats remain a major concern, with healthcare facilities becoming prime targets for attacks that threaten patient care and can result in costly litigation. With an average cost of $1.3m per cyberattack[xv], we believe the Healthcare industry faces a critical need to enhance cybersecurity on a go forward basis. Navigating these headwinds will be essential for dealmaking in the years ahead
- Further, the US Federal Trade Commission and other regulators are closely monitoring M&A activity within the healthcare sector,[xvi] and we expect them to act in relation to any deals that may be perceived as disrupting access to, or increasing the price of, patient care. As a result, increased regulatory review remains top of mind, with regulators focused on costs of care, as well as health equity and patient access to care

Figure 6: Number of Healthcare deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

Key trends to watch

Healthcare corporate strategics presently have **record levels of cash** on their balance sheets[x] to pursue acquisitions, while private equity and venture capital firms also continue to hold **near record-level amounts of deployable capital** on the sidelines

We believe corporates will continue to focus on divesting underperforming assets and / or businesses, as well as those that no longer fit with refreshed strategic priorities, while sponsors will look to divest longer-held portfolio companies to return capital to investors, all of which should serve to bolster M&A activity within the Healthcare sector

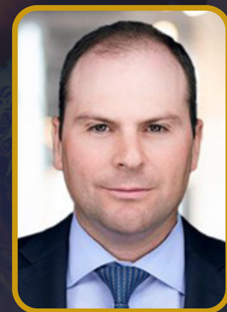
We expect non-traditional transactional structures will continue to drive broader M&A activity within the US Healthcare sector. Whether it be transactions that prominently feature alternative financing structures, carve-outs, the continued influence within the sector of non-customary players such as retail operators, or strategic cross-sector deals including partnerships or joint ventures between not-for-profit and for-profit entities. We anticipate these non-traditional deal structures to further support enhanced deal activity through the remainder of 2024, and beyond

“The overall outlook for Healthcare M&A remains positive. We anticipate a surge in activity in 2025, as companies seek to bolster their capabilities, expand their geographic reach, and position themselves for long-term sustainable growth. While the sector continues to be impacted by headwinds such as increased regulatory pressure[xiv] - dealmakers have now become more accustomed to the current interest rate environment. These factors, combined with broader market tailwinds such as capital availability and the ever-increasing need for financial sponsors to facilitate exits and return capital to limited partners, should continue to bolster deal activity throughout 2024”

Richard Blann
Managing Director
richard.blann@dcadvisory.com

Manish Gupta
Managing Director
manish.gupta@dcadvisory.com

Hector Torres
Managing Director
hector.torres@dcadvisory.com



Aaron Newman
Director
aaron.newman@dcadvisory.com

Industrials

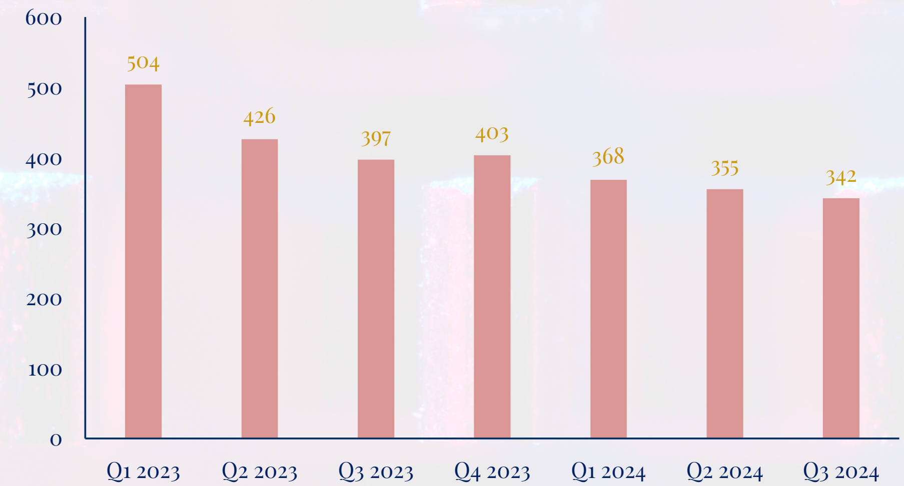
Current Trends Among Industrial Companies

- Onshoring: we expect US companies will continue to evaluate the proper balance between local supply and domestic demand – the prospect for higher tariffs and US stimulus packages heighten to some extent the complications of an optimized global manufacturing strategy
- Inventory destocking: nearly completed across several industrial sectors, but we believe there has been general softness in the industrial economy over the past 18 months as reflected in the Purchasing Managers' Index[xvii], preventing the onset of significant growth in these channels

Outlook

- We believe there are numerous tailwinds anticipated to support a rebound in Industrials sector M&A into 2025, including:
  - the end of the political cycle in the US which has created some hesitance with respect to major capital investments
  - the prospects for lower interest rates which should facilitate an increase in platform investment activity by private equity firms
  - a modest uptick in the broader industrial economy across construction, capital goods and other sectors

Figure 7: Number of Industrials deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
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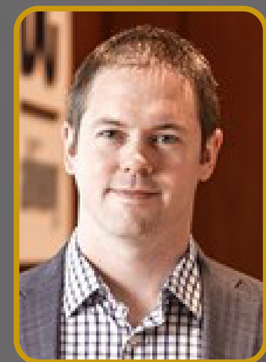
"We anticipate a healthy level of deal activity as confidence continues to build around the moderation of inflation and interest costs amid continued interest in acquisitions by strategic acquirors, as well as private equity"

Tom Krasnewich
Managing Director
tom.krasnewich@dcadvisory.com



Matt Storkman
Managing Director
matt.storkman@dcadvisory.com

Chemicals & Materials

What you need to know

- We are beginning to see growing optimism in the market as results show a positive trajectory and a likely increase in activity
- The US is viewed as an attractive target for investments, as opposed to Europe due to the impact of logistics, energy prices, and geopolitical tensions on the economy and the sector
- A number of private equity funds are focused on the chemicals sector while large companies restructure (e.g. Solvay[xviii] and DuPont[xix]) and others consolidate or sell (e.g. Covestro[xx])

Outlook

- Valuations are impacted by financing issues, as well as timing, structural and process considerations, often causing a gap between sellers and buyers
- External market forces can impact projections while due diligence processes are often more comprehensive, credit facilities more expensive, and leverage less flexible. As a result, transactions often take longer
- The upcoming US election might also result into a slowdown in the economy depending on the outcome (Tariffs, taxes, etc.)

Key trends to watch

There are consolidation opportunities in selected segments like adhesives, agricultural chemicals, pigments, coatings, flavors and fragrance ingredients

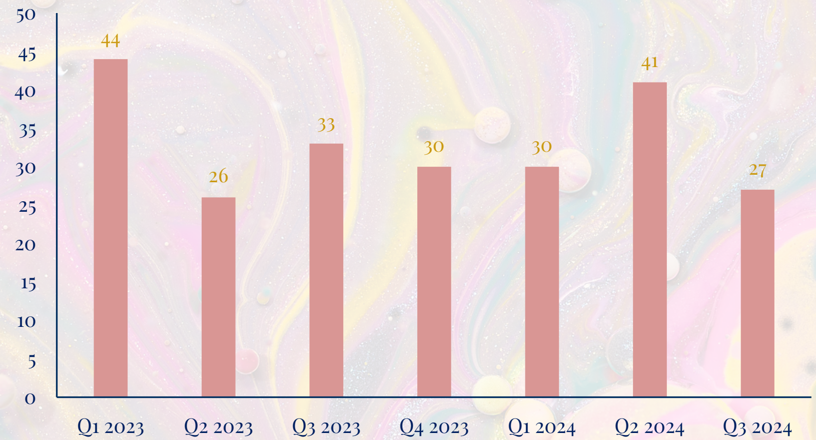
Private equity groups continue to be interested in the chemicals and materials sectors across various sectors and geographies

Portfolio re-evaluation of Japanese chemical companies will, in our view, accelerate and continue to spur future M&A activity

Corporate restructuring and streamlining of portfolios from a large cross section of sectors towards smaller, profitable and growing subsectors where companies can build leadership positions and improve profitability

Many deals in the space take into account ESG themes and the drive for sustainability.
Need to consider the impact of AI, new technologies, recycling and circular economy

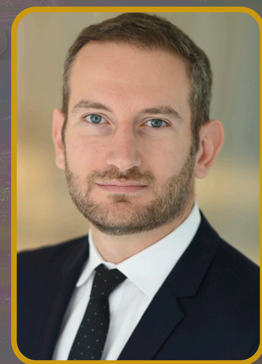
Figure 8: Number of Chemicals & Materials deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

"We are building a preeminent global Chemicals & materials practice that is truly international and integrated. The changing market is marked by technological advancements and opportunities in sustainability. We expect to see increased levels of M&A activity in the Chemicals & Materials sector for the end of 2024 and during 2025. As companies reevaluate their portfolios, we believe that private equity groups will be afforded a number of opportunities to buy, build and grow valuable assets in the space"

Federico Mennella, CFA
Managing Director
federico.mennella@dcadvisory.com



Domenico Fortuna
Director
domenico.fortuna@dcadvisory.com

Information Services

What you need to know

- High watermark acquisition activity continued in Q3, with the acquisition of Preqin by Blackrock[xxi] and the acquisition of Datassential by New Mountain Capital and Endicott Capital.[xxii] Both can be characterized as high scarcity value assets with unique data, and therefore unique competitive moats. With respect to strategic driven processes, as in the case with Preqin, an asset with highly differentiated and scarce data, we believe strategics will continue to pay premium valuations to gain a competitive edge. With respect to broad auction processes comprised of both sponsors and strategics, as in the case with Datassential, an asset with attractive data but not quite a "top bucket" given the company's end-market, in our view, sponsors outperform
- In our view, the private market continues to trade relatively in line with the broader public market, from a valuation perspective
- Transaction volumes continue to remain low, as investors evaluate potential returns (for assets that are currently held, and for assets that are on the market) considering a challenging fundraising environment

Outlook

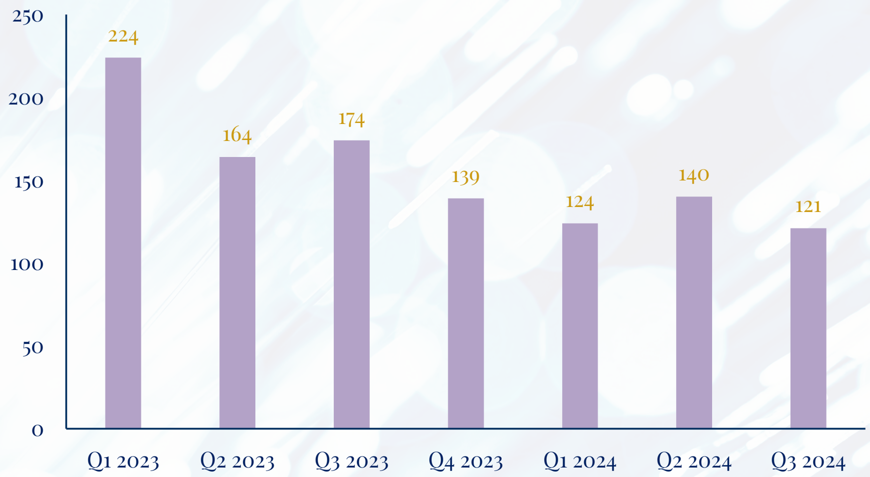
- Ongoing consolidation trends should continue to impact strategic alternative considerations for mid-market industry participants. This consolidation activity can often serve as a catalyst to transact, as strategics and sponsor-backed platforms that continue to grow via inorganic activity are creating challenging competitive dynamics for emerging, founder- owned participants – or creating important valuation markers that could dictate the "new norm" for similar assets that hit the market

Key trends to watch

We believe scaled, "A" assets continue to trade at attractive valuations, while "B" or "C" assets tend to trade at a discount, fizzle out in the market and combined with other, similar assets (or simply extended into a continuation vehicle), or result in failed processes

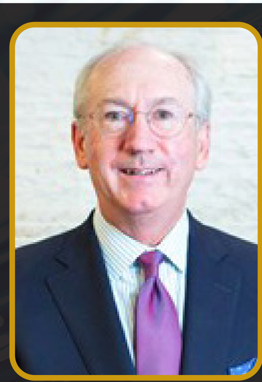
We expect strategics will continue to be an active force in consolidation, particularly for differentiated data and tools that complement current offerings, or enhance capabilities / present opportunities to enter adjacent markets

Figure 9: Number of Information Services & Media deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

"The convergence of data and analytics continues to be a significant driving force in the M&A sphere. We believe this union of interest will continue to persist as investors demand holistic, all-in-one platforms and workflow solutions to better inform and streamline investment decisions"



Joe Donohue
Vice-Chairman
joe.donohue@dcadvisory.com

Shawn Neuren
Director
shawn.neuren@dcadvisory.com

Infrastructure

What you need to know

- We believe equity fundraising continues to be slower than the past, with evidence of winners and losers in terms of who can successfully raise, and track record becomes increasingly important
- Bid offer spread between buyers and sellers continues, in our view, to lead to failed processes as it is a buyer's market if you have capital and are a willing seller

Outlook

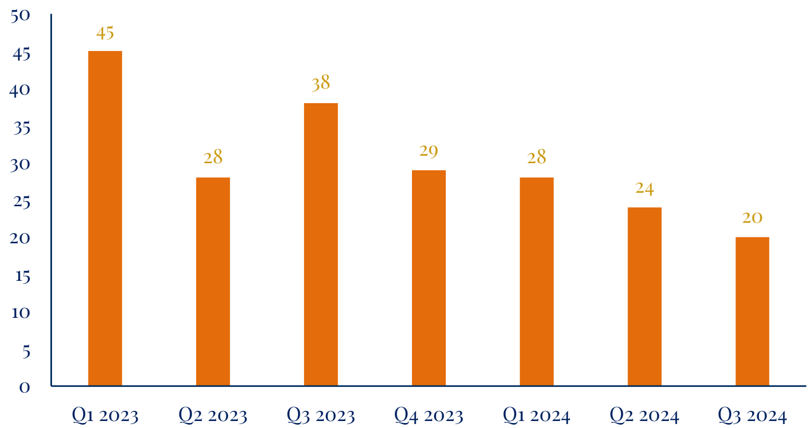
- There is a risk in evaluating business plans due to the economy and impending election
- The Federal Reserve's pivot is seen as helpful, although we believe ostensibly the cut was priced in
- We do not expect discount rates to decline from where they are today in tandem with underlying interest rates as depending on the market - the risk return is 100-200bps higher

Key trends to watch

The power of AI within data centers and fiber power generation

The Inflation Reduction Act (IRA) and ESG green initiatives

Figure 10: Number of Infrastructure deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
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DC Discusses: Transforming infrastructure investments with EQT's Alex Greenbaum

Join us as we explore strategies for building a resilient infrastructure portfolio, identifying emerging opportunities, and navigating today's dynamic market. Key topics include: Managing risk in infrastructure investments, the role of sustainability in infrastructure financing, capitalizing on investment opportunities and the impact of economic and geopolitical factors on the sector.

Listen here

"The Infrastructure sector is stable to improving, post-election we anticipate significant deal flow as sellers reevaluate their positions"

Anthony Edwards
Managing Director
anthony.edwards@dcadvisory.com

Hannah Schofield
Managing Director
hannah.schofield@dcadvisory.com

Private Capital Markets

What you need to know

- We believe the lack of M&A and, therefore, net new issuance has contributed to the increased opportunistic deal flow
- We see a need for sponsors to return capital to LPs by taking dividends, a stop gap in place of monetizing assets
- Overall strength in the underlying technicals, and dry powder, in credit and junior capital (preferred equity, mezzanine debt, second lien) funds

Outlook

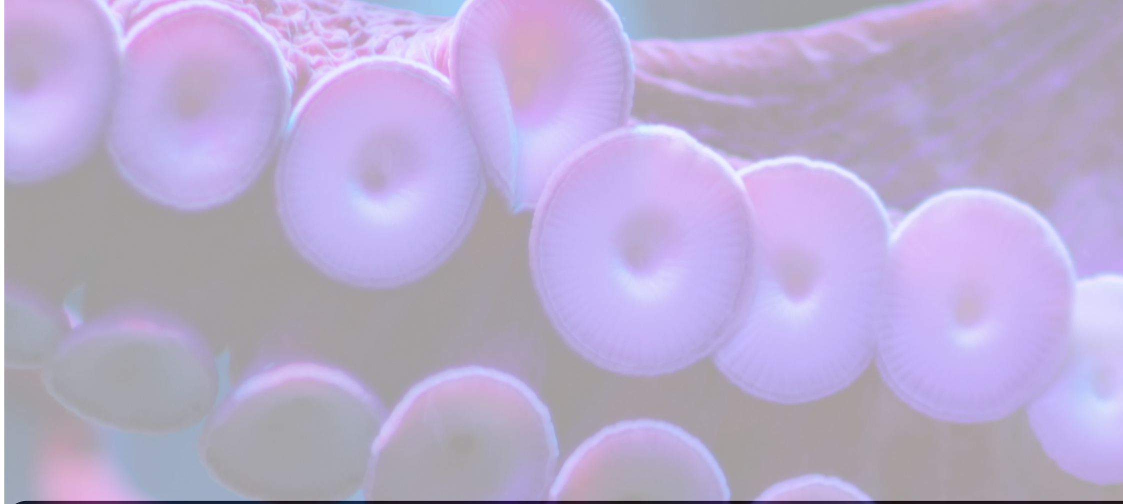
- We expect the markets to be accommodating with investors looking for opportunities to deploy capital across the private debt and equity markets
- While the list of potential risks to market sentiment remain long and substantial (increasing geopolitical uncertainty, the upcoming US election, and the risk that inflation reverse course) we believe the technical environment for borrowers will remain constructive in the near term
- We are focused on how the markets respond over the next 12 months as asset managers face challenged returns, a race to the bottom effort to deploy capital at depressed margins against the backdrop of a declining rate environment

Key trends to watch

Refinancing and dividend recaps, the technical environment in credit markets affords quality assets the ability to add leverage and provide sponsors the ability to pull liquidity out offering a return of capital to LPs

Minority equity raises providing a mark on the value of an asset driver as an alternative solution to monetizing assets and offers the sponsor a third-party valuation of an asset as they look to fundraise in 2024 and 2025

De-levering transactions and re-positioning of the balance sheet as higher interest rates for longer have resulted in companies needing to **reduce senior secured leverage and utilize junior capital PIK solutions**



"For performing assets, deal activity should continue to remain opportunistic as sponsors and borrowers look to push out maturities, optimize cost of capital, and seek dividends to monetize assets to the extent possible. We expect credit investors will see continued margin compression as they seek opportunities to deploy capital. On the other side of the spectrum, borrowers will look to de-lever balance sheets with junior capital solutions. In the backdrop of it all, sponsors will seek to use third party valuation on assets and to pull out some liquidity to support future fundraising efforts. Until the M&A market turns back on, technical will remain in favor of borrowers as demand far outpaces supply"

Michael Moore
Managing Director
michael.moore@dcadvisory.com

Jono Peters
Director
jono.peters@dcadvisory.com

Technology

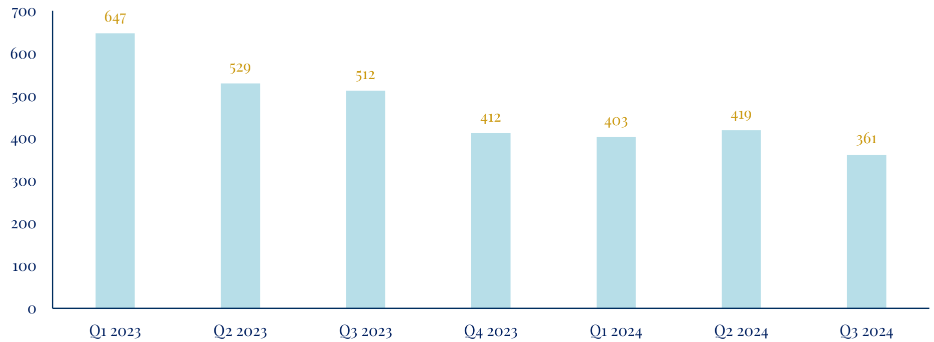
What you need to know

- Tech M&A activity is regaining momentum in 2024, with total deal value doubling YoY despite a decline of 20% in deal volume during 2024 H1[xxiv] – this divergence suggests a cautious but opportunistic market, where fewer transactions are taking place but with higher deal values
- Strategic buyers have outpaced private equity firms in 2024 H1, with strategic deal values rising 130% YoY, compared to a 50% rise in private equity-led deals[xxv]
- Private equity has notably accelerated its tech deal-making in Q2 2024, posting both sequential and YoY growth
- Heading into Q3 2024, private equity players have already seen a 30% YoY increase in deal value[xxvi] with a week remaining in the quarter, indicating continued momentum and confidence in the sector
- In the broader public SaaS universe, top decile companies are currently trading at an EV / NTM revenue multiple of approximately 12x[xxvii], while the median multiple has been relatively stable at 6x for the past few quarters[xxviii], which is still below the pre-pandemic median and down approximately 70% from 2021 highs[xxix]

Outlook

- A resilient economy, easing interest rates and a strong equity market are fueling renewed confidence in the tech sector, encouraging investment and deal-making activity
- As financial conditions and valuations stabilize, both buyers and investors are more willing to pursue deal making, driving positive sentiment across the M&A landscape
- Buyers are concentrating on high-quality assets with scale, profitable growth and strong unit economics, leading to intense competition for premium companies while leaving weaker assets struggling to find buyers at reasonable valuations
- The increase in debt issuance across investment-grade, high-yield and leveraged loan markets signals that financing for M&A is more accessible than in the past two years, providing companies with better funding options
- The gap between buyer and seller expectations around valuation is easing but still prevalent - with tech valuations having dropped from their post-pandemic highs, narrowing the gap remains crucial for deal flow

Figure 11: Number of Technology deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

Key trends to watch

We expect strategic buyers to continue to lead M&A activity in the short term, focusing on acquiring companies to consolidate capabilities, diversify product offerings and enhance competitiveness

Private equity's appetite for acquiring both mature and high-growth companies is intensifying, driving an accelerating M&A market that spans across stages of the software ecosystem

The pressure on private equity to return capital is driving a cautious approach to exits - while optimism for an IPO recovery exists, the narrow 2024 window and investor caution may favor M&A as the preferred exit strategy

Buyers are laser-focused on competitive differentiation and key performance metrics such as growth, dollar retention and capital efficiency, resulting in heightened competition for top-tier, well-performing software assets

"Tech M&A is building momentum in 2024, driven by larger deals and strategic plays. With total deal value doubling[xxiii] despite lower transaction volumes, we expect this trend to persist as financial conditions improve. Easing interest rates, a stable equity market and confidence in the tech sector are creating a favorable environment for deal-making. Over the coming quarters, we anticipate continued growth, especially from strategic buyers focused on long-term consolidation and private equity firms seeking to deploy capital and to realize liquidity for existing portfolio companies. As competition intensifies for high quality assets, M&A will remain the preferred exit strategy, fueling increased deal activity through the remainder of the year and into 2025"





Eric Edmondson
Vice-Chairman
eric.edmondson@dcadvisory.com

Vik Sharma
Managing Director
vik.sharma@dcadvisory.com

Eric Wagner
Managing Director
eric.wagner@dcadvisory.com

Tommaso Zanobini
Managing Director
tommaso.zanobini@dcadvisory.com

Ryan Frew
Director
ryan.frew@dcadvisory.com

Telecom & Digital Infrastructure

What you need to know

- We expect more activity and vibrancy in the M&A market than a year ago due to the stabilization of capital markets, across all sub sectors within the Telecom industry
- The number of transactions decreased over the past several quarters, however relative to the past couple of years, we see an increase in larger deals being announced
- Industry growth is, in our view, strong across most sub sectors due to strong enterprise and consumer demand for data intensive applications leading to upside in data centers, broadband and wireless penetration
- We believe strategics and private equity are positioning to capture an upside in valuations that should be created due to the further adoption of digitization

Outlook

- We believe there is a desire for companies to scale or add service capabilities to be competitive and benefit from the ability to generate increased cash flow and profits
- Within the Telecom and Digital Infrastructure sector, in our view, smaller companies are competing against larger companies and will be at a disadvantage due to the need to generate proper returns without the right scale

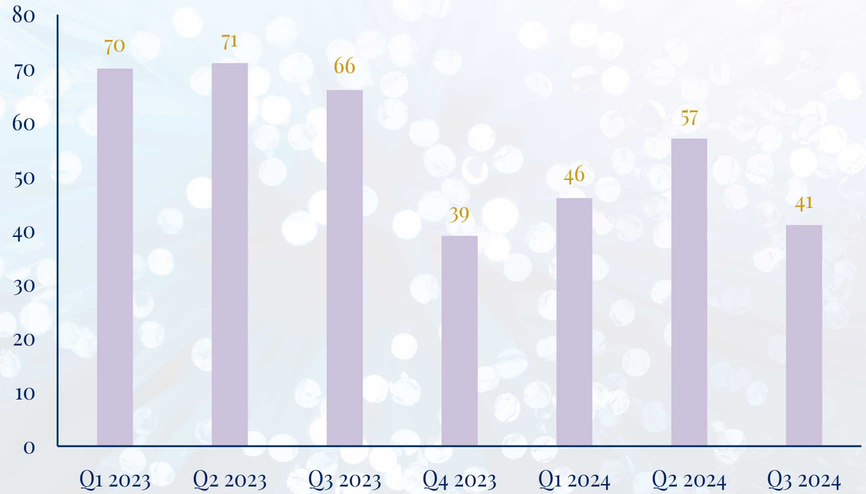
Key trends to watch

The impact of AI within the Telecommunications and Digital Infrastructure industry

Overall broadband consumption has more than doubled in four years[xxx] and we expect this will continue to grow

Dynamic consolidation to scale and take advantage of industry convergence trends

Figure 12: Number of Telecom & Digital Infrastructure deals in the US, by quarter



Source: PitchBook Data, Inc.;*from 01/01/2023 to 10/10/2024, **Data has not been reviewed by PitchBook analysts.
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"The Telecom & Digital Infrastructure sector is resilient, but capital intensive. We believe capital is available, but at a relatively higher cost than a couple of years ago. Should interest rates continue to move lower, and cost of capital declines, we believe the spread between what a seller will pay and what a buyer demands will continue to shrink, leading to a significant increase in M&A transactions"

Anthony Belinkoff
Managing Director
anthony.belinkoff@dcadvisory.com

Stan Holtz
Managing Director
stan.holtz@dcadvisory.com

***Appendix

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Pitchbook search criteria for figures 1-7

Sector	Search criteria
Private Equity Deal Activity	Deal Date: From: 01-Apr-2023; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States;
Aerospace, Defense & Government Services	Source: Mergermarket;*from 2004 to 09/16/2024, https://mergermarket.ionanalytics.com/content/1003935046?utm_source=Classic+Service&utm_medium=Classic+Content&utm_campaign=Redirect&utm_term=ContentOpen&intelId=intelcms-6b47bv
Consumer, Leisure & Retail	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Consumer Products and Services (B2C) > Apparel and Accessories; Consumer Products and Services (B2C) > Consumer Durables; Consumer Products and Services (B2C) > Consumer Non-Durables; Consumer Products and Services (B2C) > Restaurants, Hotels and Leisure; Consumer Products and Services (B2C) > Retail; Consumer Products and Services (B2C) > Other Consumer Products and Services; Search Primary Industry Only;
Beauty & Personal Products	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Consumer Products and Services (B2C) > Consumer Non-Durables > Personal Products; Search Primary Industry Only;
Education & EdTech	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Business Products and Services (B2B) > Commercial Services > Education and Training Services (B2B); Consumer Products and Services (B2C) > Services (Non-Financial) > Educational and Training Services (B2C); Information Technology > Software > Educational Software; Search Primary Industry Only;
Healthcare	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Healthcare > Healthcare Devices and Supplies; Healthcare > Healthcare Services; Healthcare > Other Healthcare; Search Primary Industry Only;

Pitchbook search criteria for figures 8-12

Sector	Search criteria
Industrials	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Business Products and Services (B2B) > Commercial Products > Building Products; Business Products and Services (B2B) > Commercial Products > Industrial Supplies and Parts; Business Products and Services (B2B) > Commercial Products > Machinery (B2B); Business Products and Services (B2B) > Commercial Transportation; Consumer Products and Services (B2C) > Transportation > Automotive; Information Technology > Communications and Networking > Connectivity Products; Information Technology > Communications and Networking > Fiberoptic Equipment; Information Technology > Communications and Networking > Wireless Communications Equipment; Information Technology > Computer Hardware; Information Technology > Semiconductors; Materials and Resources > Chemicals and Gases; Materials and Resources > Construction (Non-Wood); Materials and Resources > Containers and Packaging; Materials and Resources > Forestry > Paper/Soft Products; Materials and Resources > Forestry > Wood/Hard Products; Materials and Resources > Textiles; Materials and Resources > Other Materials; Search Primary Industry Only;
Chemicals & Materials	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Materials and Resources > Chemicals and Gases; Materials and Resources > Other Materials; Search Primary Industry Only;
Information Services and Media	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Business Products and Services (B2B) > Commercial Services > Media and Information Services (B2B); Search Primary Industry Only;
Infrastructure	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Business Products and Services (B2B) > Commercial Transportation > Infrastructure; Energy > Energy Services > Energy Infrastructure; Energy > Utilities; Search Primary Industry Only; Verticals: Infrastructure; Search Industries OR Verticals;
Technology	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Information Technology > Software; Search Primary Industry Only;
Digital Infrastructure &Telecom	Deal Date: From: 01-Apr-2024; To: 10-Oct-2024; Deal Size: Min: 75M; Max: 500M; Deal Options: Search on a full transaction; Search Deals without an Amount; Deal Status: Completed; Announced/In Progress; Deal Types: All Buyout Types; M&A/Control Transactions; Other M&A Transactions; Acquisition financing; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Secondary transaction - open market; Secondary transaction - private; Spin-Off; Location: United States; Industries: Information Technology > Communications and Networking > Cable Service Providers; Information Technology > Communications and Networking > Internet Service Providers; Information Technology > Communications and Networking > Telecommunications Service Providers; Information Technology > Communications and Networking > Wireless Service Providers; Information Technology > Communications and Networking > Other Communications and Networking; Information Technology > IT Services > Systems and Information Management; Search Primary Industry Only;

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Our locations

Amsterdam
DC Advisory Netherlands
De Lairessestraat 121-H
1075 HH Amsterdam
Netherlands
E: benelux@dcadvisory.com

Austria
Albertgasse 35 1080
Vienna
E: enquiries@dcadvisory.com

Bangalore
DC Advisory India
2nd Floor, 40 Vittal Mallya Road
Bangalore 560 001
Tel: +91 80 6816 4700
E: bangalore@dcadvisory.com

Beijing
DC Advisory China
Daiwa Securities Co. Ltd.
Building 1, No.A6, Jianguomen
Street, Chaoyang District,
Beijing, Beijing, 100000 China
Tel: +86-1065006688
E: enquiries@dcadvisory.com

Chicago
DC Advisory US
300 North LaSalle Drive,
20th Floor, Chicago, IL
60654
Tel: +1 (312) 948-5300
E: chicago@dcadvisory.com

Frankfurt
DC Advisory Germany
Neue Mainzer Strasse 1
60311 Frankfurt am Main
Germany
Tel: +49 (0) 69 972 0040
E: germany-365@dcadvisory.com

Hanoi
DC Advisory Vietnam
Daiwa Securities Co. Ltd.–
representative office
Suite 1306, Pacific Place
Building, 83B Ly Thuong Kiet
Street, Hanoi
Tel: +84 4 946 0460
E: enquiries@dcadvisory.com

Hong Kong
DC Advisory Hong Kong
Daiwa Securities Co. Ltd –
representative office
One Pacific Place, 88 Queensway,
Hong Kong
Tel: +852 2525 0121
E: enquiries@dcadvisory.com

London
DC Advisory UK
5 King William Street
London EC4N 7DA, UK
Tel: +44 (0) 20 7856 0999
E: uk@dcadvisory.com

Madrid
DC Advisory Spain
57 Calle Serrano
Madrid 28006, Spain
Tel: +34 91 524 11 23
E: spain@dcadvisory.com

Manchester
DC Advisory UK
One New York Street
Manchester M1 4HD, UK
Tel: +44 (0) 161 362 6800
E: uk@dcadvisory.com

Milan
DC Advisory Italy
Via Manzoni, 5
20121 Milano, Italy
Tel: +39 02 09942699
E: italy@dcadvisory.com

Mumbai
DC Advisory India
7th Floor, Table Space,
Godrej BKC
Plot C-68, G Block BKC
Bandra Kurla Complex,
Mumbai - 400 051
Tel: +91 22 6882 4700
E: mumbai@dcadvisory.com

New York
DC Advisory US
605 Third Avenue, 11th Floor
New York, NY, 10158
Tel: +1 (212) 904 9400
E: newyork@dcadvisory.com

Paris
DC Advisory France
17 rue de Surène
Paris 75008, France
Tel: +33 (0) 1 42 12 49 00
E: france@dcadvisory.com

San Francisco
DC Advisory US
425 California St, Suite 1900
San Francisco, CA 94104
Tel: +1 (415) 962 4560
E: sanfrancisco@dcadvisory.com

Seoul
DC Advisory South Korea
Daiwa Securities Capital Markets Korea Co.,
Ltd
21 Fl. One IFC, 10
Gukjegeumyung-Ro,
Yeongdeungpo-Gu, Seoul, 07326
Tel: +82 2 787 9100
E: enquiries@dcadvisory.com

Shanghai
DC Advisory China,
Daiwa Securities Co. Ltd.
44/F, Hang Seng Bank Tower, 1000 Lujiazui Ring
Road, Pudong, Shanghai
Tel: +86 21 6859 8000
E: enquiries@dcadvisory.com

Singapore
DC Advisory Singapore
Daiwa Capital Markets Singapore Limited
7 Straits View Marina One East Tower
#16-05/06 Singapore 018936
Tel: +65 6228 6709
E: enquiries@dcadvisory.com

Tokyo
DC Advisory Japan,
Daiwa Securities Co. Ltd.
GranTokyo North Tower 1-9-1
Marunouchi, Chiyoda-ku
Tokyo, 100-6752
E: enquiries@dcadvisory.com

Warsaw
DC Advisory Poland
Rondo ONZ 1
00-124 Warszawa, Poland
Tel: +48 22 460 02 00
E: poland-365@dcadvisory.com

Washington DC
DC Advisory US
1425 K Street, NW
Suite 900, Washington, DC 20005
Tel: +1 (202) 908 4000
E: washingtondc@dcadvisory.com

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