DC advisory

US Private Equity Mid-Market Monitor: H1 2024 & Outlook

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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 September 2023.

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Executive summary

In our last report, we presented the US M&A market as a Hummingbird, taking time for transactions to come to fruition. We continue to see the buildup of anticipated deal activity, alongside market stabilization and new opportunities being presented. In this report, we are presenting 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.

Private equity adaptability

- Private equity's willingness to welcome innovation and new opportunities are significant
- The US economy recovered in the second half of 2023: an anticipated soft landing in the months ahead led by disinflation[i], stronger than expected GDP growth of 1.6%[ii], a robust job market[iii], and the potential for a string of interest rate cuts sending stocks and bonds rallying into the end of December[iv]

Adjusting to the 'new normal' of M&A activity

Uncertainty over the macro-economy, interest rates that look to stay higher for longer, and geopolitical uncertainty are challenges to private equity's upswing.

- The stock market is expected to be a good indicator of M&A volumes, currently the market is up which is a positive indicator
- M&A has been moving along at a relatively solid pace, and this momentum should carry through the year. With high inflation and market instability, private equity firms must possess strength and flexibility with an openness to evolving trends
- Many private equity firms are sitting on a substantial amount of dry powder, ready to deploy capital into promising opportunities as market dynamics evolve
- Variation is fundamental to growth in take-privates and corporate carve-outs, with market developments and secondary deals receiving attention in deal strategies

2024: Diversification & digitization

- Diversification has been central to achieving an increase in take-privates and corporate carve-outs, with new market expansions and secondary deals gaining a more prominent focus in deal strategies
- Digitization, in our view, will be a key driver for deals as businesses incorporate technology into their industries through acquisition

"While there was an anticipated drop-off in US deal activity in 2023, there are pockets of opportunity and deal activity is picking up. The deep challenges facing the industry – interest rates, inflation risks, geopolitical instability, political uncertainty, and stock market volatility mean that this year will be an important inflection point. Looking ahead, those with capability to act quickly, look to global opportunities and adapt to the changed environment will be positioned to win."
Bill Kohr, US CEO

Sponsor coverage

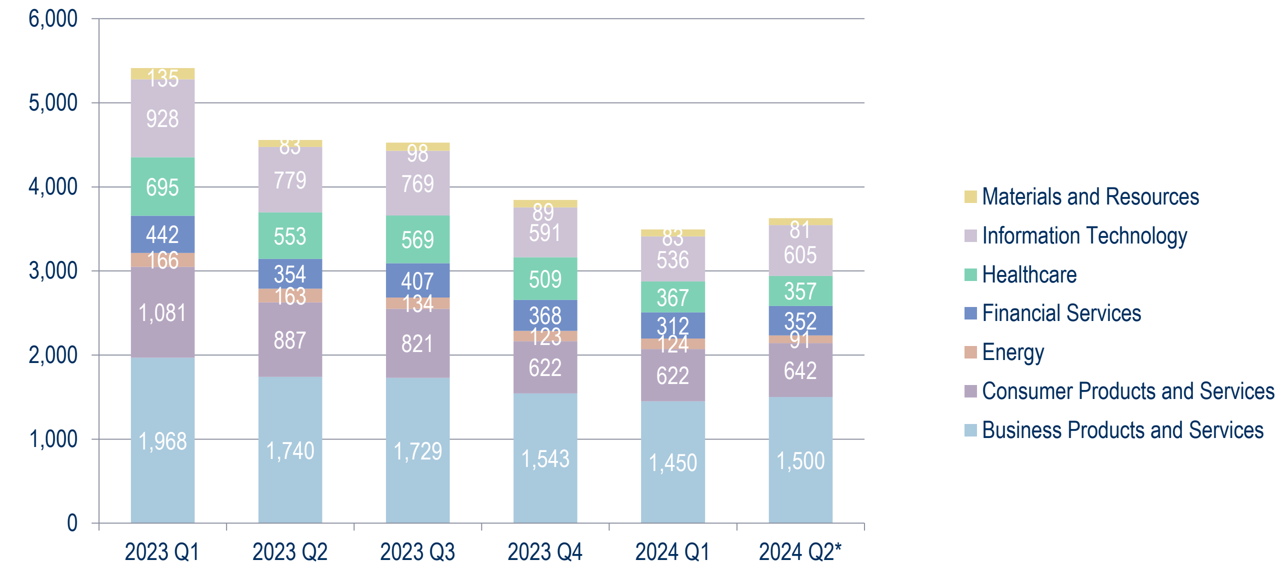
What you need to know

- 2023 US private equity market volumes approached pre-pandemic lows, in 2024 we expect volumes to stabilize as the year progresses
- In Q2 2024, there have been indications of building market momentum for Q3 2024
- Pressure on private equity funds to return capital to LPs is increasing, driving more active consideration of inbound interest at current asset value levels
- Interest rates have stabilized at 'higher for longer' putting downward pressure on valuations, while the availability of credit at improved terms has helped bridge the valuation gap in the current marketplace
- Fortunately, the economic backdrop has remained strong for most private equity-owned businesses

Trends in M&A

- Valuation gaps and supply demand imbalances remain, making broad auctions risky to undertake. However, pre-sale process "price discovery" has become standard leading to a less traditional auction process and corporate transactions gaining an increasing share of the overall market
- Advisory-led processes continue to adapt:
    - Increasing solicitation and acceptance of "pre-emptive" transactions from corporates before processes begin
    - Continued aggressive activity from financial backed strategics is limiting sponsor platform participation in sell-side processes
    - Many current processes do not progress past the initial exploration phase before going "broader" to a group of sponsors
    - Even for "broader" processes, a limited number of PEs are being included in buyers list
- During the past 2+ "down" years, a significant amount of deal preparation and analysis has been completed and funds have assets ready to sell to bona fide, qualified targeted approaches

Figure 1: Private Equity Deal Activity, by quarter



Source: PitchBook Data, Inc.;*to 8 May 2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

Q3 and beyond

The potential for **large geopolitical and macroeconomic impacts on supply chains**, commodity, and oil prices continues to hang over the US market

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

Further, investment committees have begun to normalize and accept the macroeconomic and geopolitical overhang to formulate **a "new normal" of ranges** in which they are willing to transact

In the US, the **November elections seem to have usurped rates and recession predictions** as the fulcrum for a renewed (or not) transaction catalyst. As a result, bi-lateral and strategic only discussions are beginning now in order to be in a position to transact post the November elections

We expect a **H1 2025 increase in activity for US private equity exits** with an eye to "priming the pump" for 2026 new fund raises

"Throughout H1 2024, private equity has been distinguished by its adaptability and flexibility in order to enhance value creation. We expect this to continue through H1 2025 until the large pipeline of assets ready for scale and the trillions of dry powder dollars work their way through the increasingly, albeit slow stabilization of M&A market imbalances."

Dan Graves,
Managing Director and
Head of Sponsor Coverage

Aerospace, Defense & Government Services

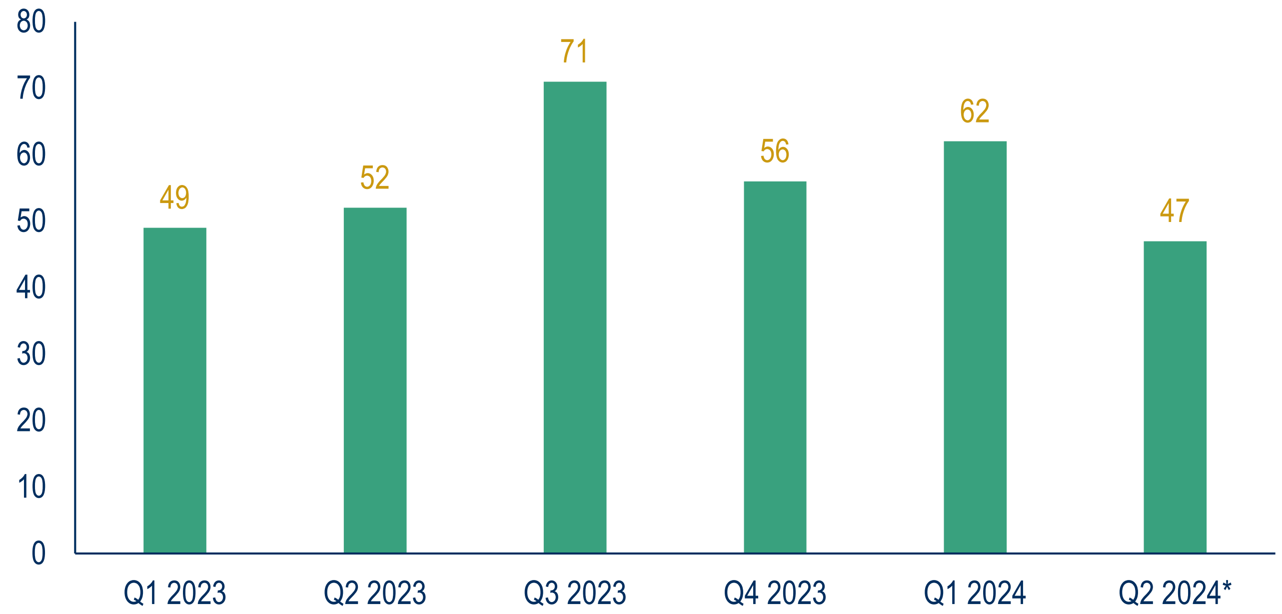
What you need to know

- We expect spending across the Defense & Government sectors to continue to be favorable given the current geopolitical landscape and tension
- The fiscal 2025 budget request is approximately $895BN[v] which is around 4% above the $860BN enacted for the fiscal year 2024 (excluding the $58BN supplement related to Ukraine)[vi]
- The rising cost of capital[vii], divergent perspectives on valuation and macroeconomic uncertainty slowed M&A activity through 2022 and into 2023.The risk around the cost of capital increasing further has subsided as the Federal Reserve has stabilized its stance on interest rates[viii]

Outlook

- We believe strategic buyers have used this time to pay down debt but are now re-entering the market to address their inorganic growth needs. Additionally, in our view, buyers (both financial and strategic) have greater conviction around their cost of capital and are factoring this into their pursuits
- Defense & Government spending is both a strength and risk to US M&A activity - growing budget deficits and off-balance sheet exposure to entitlement programs have the potential to impact discretionary spending
- We believe delays in new awards, including many of the largest, most heavily watched contracts, have adversely impacted market participants. This challenge has only been exacerbated by the reality that elements of the US government have been operating under a Continuing Resolution for the past twenty years[ix]

Figure 2: Number of Defense & Government deals in the US, by quarter



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

Key trends to watch

Technology advancements continue to be a focal point for investors as the public sector continue to seek out ways to do more with less using technology. In this way, innovation presents an opportunity to achieve greater results and leverage with similar spending levels

Funding for IT has grown consistently over the last decade, with a 2025 funding proposal of $75bn[xii], as US federal agencies continue to prioritize critical technology areas, including cloud, cyber, big data, AI, health IT, mobility / 5G and network modernization

As space becomes a weaponized domain, existing US space capabilities may be at risk[x]. Space is a critical component of military command-and-control capabilities - the US and its allies are in an era of great power competition and space is a cornerstone of this rivalry. Spending across this domain has accelerated to develop the forces and capabilities necessary to protect and defend US space interests[xi]

"We continue to have a favorable view of deal activity in the Defense & Government market for both 2024 and 2025 based upon what we are seeing and hearing from our clients and other market participants. Ultimately, we believe deal inventory will be driven by company-specific financial performance and related contractual visibility which should benefit from the favorable spending environment backdrop."

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Business & Tech-Enabled Services

What you need to know

- Uncertainties around capital availability and costs will continue in 2024, as well as a gap between buyer and seller value expectations

Outlook

- Secular outsourcing growth drivers will likely continue to positively affect the Business & Tech-Enabled Services sector
- The “new normal” of borrowing costs and new valuation reality should support in the resumption of deal activity
- Dry powder continues to remain at near all-time highs providing a solid footing to recovery in M&A

Key trends to watch

Private equity firms continue to focus on portfolio reviews, identifying and executing on bolt-on size acquisitions and investing in digital capabilities

“Aquirors continue to focus their interest on only the highest quality assets.”

Dan Skolds
Managing Director
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DC Discusses: Facilities Services, a growing industry experiencing rapid change

Our US Business Tech Enabled Services team summarizes below the main takeaways and trends impacting the Facilities Services sector, and what this means for future deal flow, including:

- Why private equity investment is driving consolidation
- How technology is being utilized to create a better service for customers and cut costs
- The challenges posed by skilled worker shortages and remote working

Read here

DC Discusses: Enabling growth with Outsourced Product Development

Outsourced Product Development (OPD) is a business strategy for hiring an external provider to develop, maintain and refresh software and has become increasingly popular from not just for independent software vendors (ISVs) but also technology requirements for other industry sectors.

The democratization of technology and cloud adoption, combined with the rapidly evolving customer needs have led to a critical resource crunch for talent contributing to the growing demand for OPD.

Read here

Consumer, Leisure & Retail

What you need to know

- 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 the ongoing impact of inflation on household budgets has resulted in consumers deferring discretionary purchases and trading down from more expensive brands

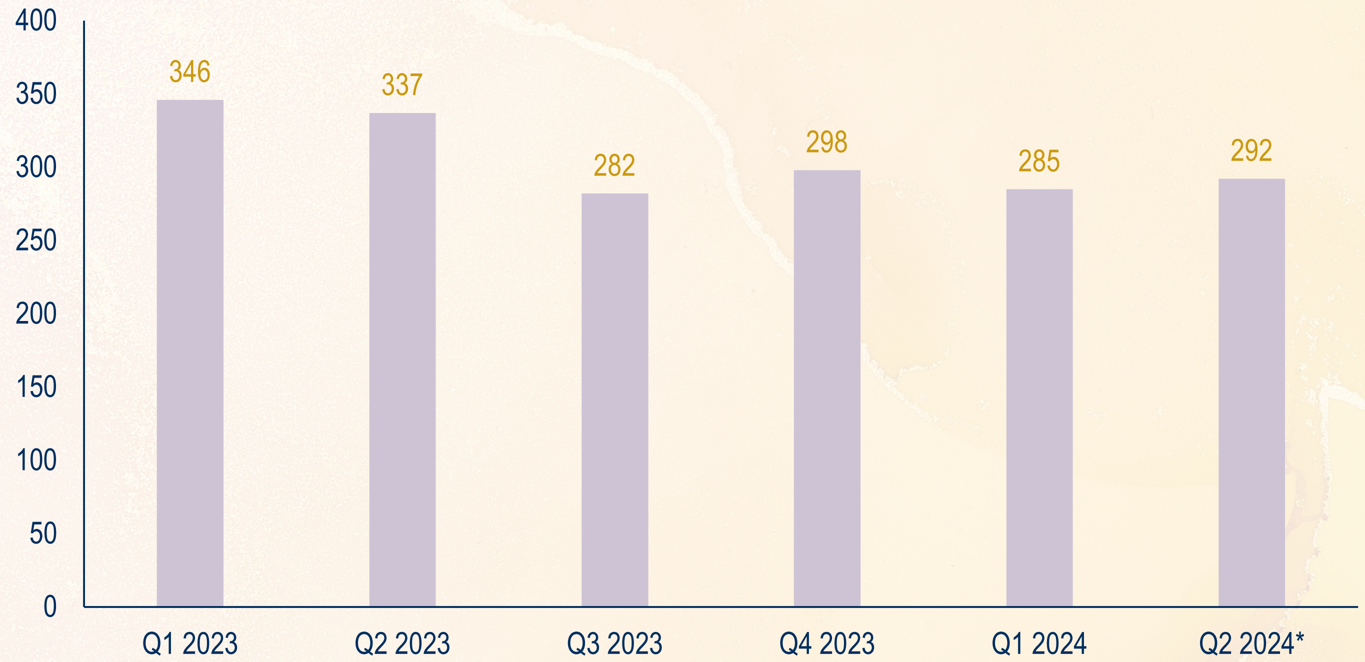
Outlook

- 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 will 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.;*quarter-to-date 4/1/2024 to 5/2/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

"We expect the M&A environment 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
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Beauty & Personal Products

What you need to know

- Despite high interest rates and declining savings levels, the US beauty market shows tremendous momentum[xiii]
- We see interest and prioritization of investing in the Beauty sector by strategics and PE investors
- There is a strong pipeline of assets that are performing well and reaching attractive scale

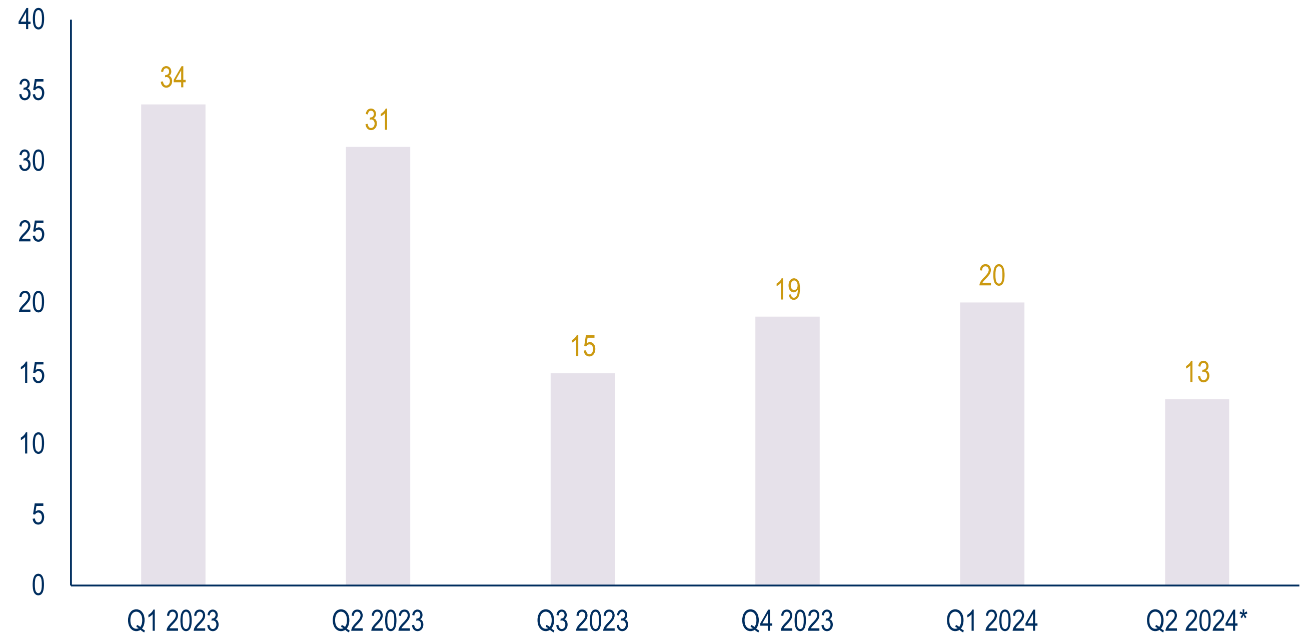
Outlook

- Assuming the Beauty sector continues to perform well, we hope to see a pickup of deal activity in late 2024 to early 2025
- 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

US prestige makeup is the fastest growing category in the Beauty industry

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



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

DC Discusses: The glowing outlook for Beauty & Personal Care M&A

The Beauty & Personal Care industry has typically been resilient to macro-economic factors and wider sector headwinds. However, 2023 was a year of resetting valuations, reduced deal volume in multiple regions, and consumer concerns. Why are we therefore so optimistic for a resurgence in M&A activity this year and beyond?

Read here

"We see several attractive, scaled assets that are maturing and have been in a private equity portfolio for five years or more, which may put some pressure on funds to exit and return capital to their LPs soon."

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Education & EdTech

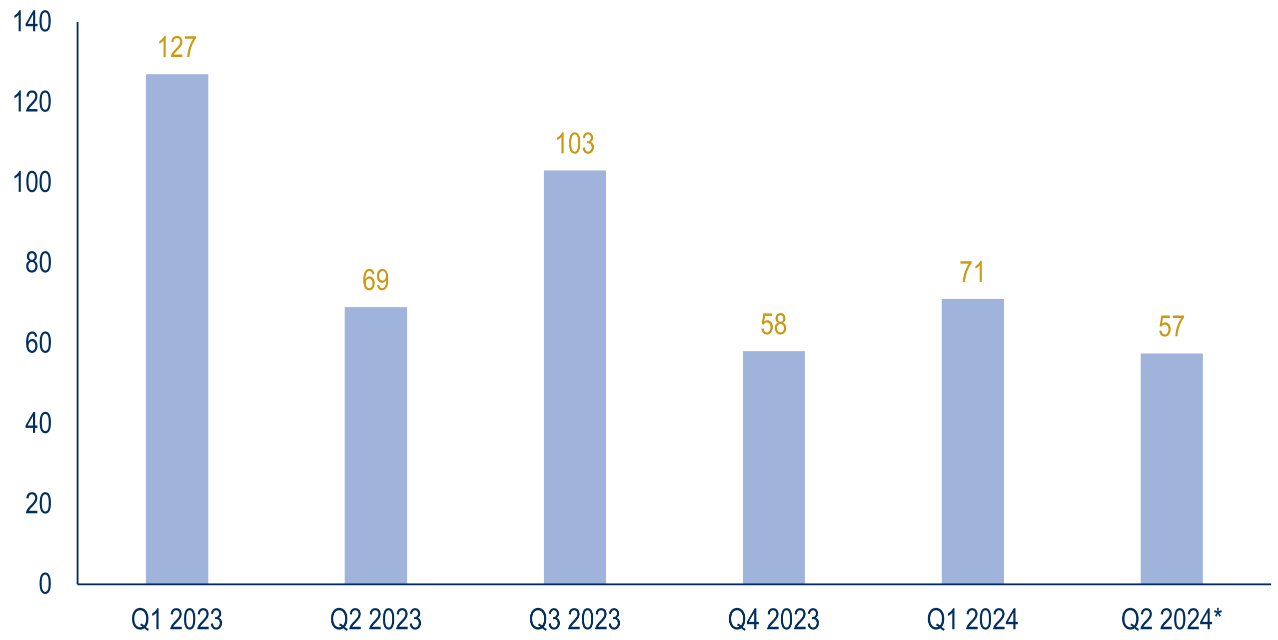
What you need to know

- We believe market sentiment has begun to shift in a positive direction after several quarters of tepid velocity and valuations in the EdTech M&A and private capital markets
- Businesses that are moving to incorporate AI into their product offerings may have to realize proof points to demonstrate successful product launches and transitions
- In our view, education companies selling into K-12 school districts must demonstrate product stickiness and a thorough understanding of their customers' funding sources, as pandemic-related stimulus funding (ESSER) nears its expiration of September 2024[xiv]. Investors are increasingly scrutinizing the funding landscape and are wary of slower sales and customer turnover related to a lack of funds

Outlook

- Continued emphasis on profitability in the M&A market may have led EdTech businesses to seek alternative financing solutions to drive continued growth rather than pursue sale processes, though some acquirers can exhibit a willingness to pay revenue multiples for top-tier assets

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



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
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Key trends to watch

Credentialing and training for skilled trades and professions which do not require an undergraduate degree continue to be critical tools for upward mobility. College enrollment decreased 8% from 2019 to 2022[xv], while labor shortages have persisted in many industries in the US, leading to a high level of job openings

K-12 schools have continued to prioritize spending on student behavioral health and well-being, and we expect this to remain a high priority even as ESSER funding expires later this year[xvi]. The US faces a growing mental health crisis, especially among children and teenagers, resulting in demand for schools to address their students' concerns, provide access to behavioral health services and focus on social-emotional development

Healthcare training companies remain in high demand as workforce shortages span all healthcare professions, including nursing, physicians and allied health. There is an overwhelming need for healthcare systems to enact cost-effective solutions to ensure their providers meet ongoing licensure training requirements, and support the recruitment of new professionals

"We see reasons for optimism for the remainder of 2024 and beyond. While some companies continue to double down on execution rather than pursue sale processes, we believe several will launch in early summer. Companies with a history of strong profitability and solid growth have continued to see interest from both private equity and strategic acquirers."

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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

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

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

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

"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."

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Healthcare

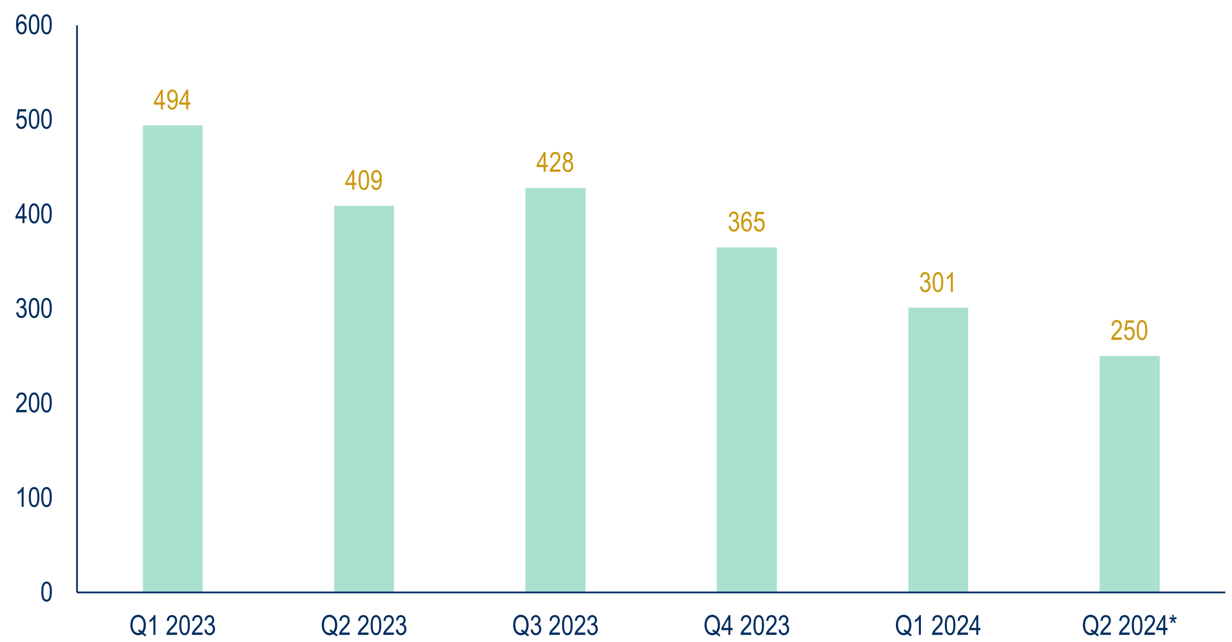
What you need to know

- With broader talks of a domestic recession fading and continued stabilization within the credit market environment, the Healthcare sector is witnessing positive momentum and a slower, but steady increase in activity from both buyers and sellers
- The more stable credit market environment is supporting a greater degree of confidence across the Healthcare M&A market, with the “bid/ask” spread between buyer and seller expectations of valuation narrowing at an increased rate
- General uncertainty in a general election year, and the accompanying potential implications to potential tax code changes are positively impacting increased M&A volume as well as forward planning on private equity backed organizations to exit in the second half of this year

Outlook

- While high interest rates, geopolitical instability, and inflation all remain major challenges for dealmakers in the current Healthcare M&A market, general market conditions continue to improve, albeit at a relatively slow pace
- The understanding and acknowledgement that the current rate and cost environment is the “new normal” is helping to further inject confidence into the Healthcare M&A market across nearly all industry sub-sectors
- The need for consolidation and the attainment of economies of scale remains a significant contributor to Healthcare M&A activity; heightened levels of fragmentation continue to drive M&A activity in sub-sectors such as physician practice management, hospitals, and health systems

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



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

Key trends to watch

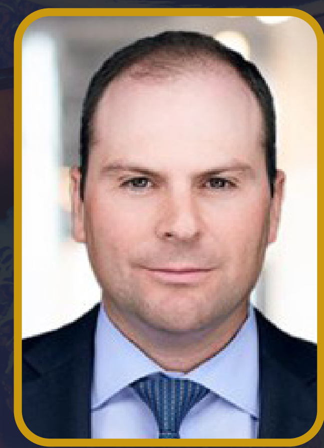
Relatively **high levels of industry-specific fragmentation and the needs to achieve and attain economies of scale and operating leverage** all remain contributing factors to continued Healthcare M&A

Medical spas, orthopedics, and musculoskeletal care, as well as dental, dermatology and other select physician practice management specialties all remain increasingly active sectors for increased Healthcare M&A activity

Outsourced services, healthcare staffing, technology-enabled revenue cycle management, and medical device repair and refurbishment services are also areas of continued investor focus and interest, which should also serve to support increased Healthcare M&A activity overall

“We expect to see an uptick in activity in the second half of the year, trickling into 2025 for the Healthcare sector, as the number of assets in the market have increased.”



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Industrials

What you need to know

- Transaction volumes will continue to normalize as higher cost of capital and post COVID-19 financial results are integrated into buyers/sellers decision making
- Supply chains had an impact on the transportation sector with the overall freight market at a slowdown due to businesses overstocked with product, we expect this to normalize this year

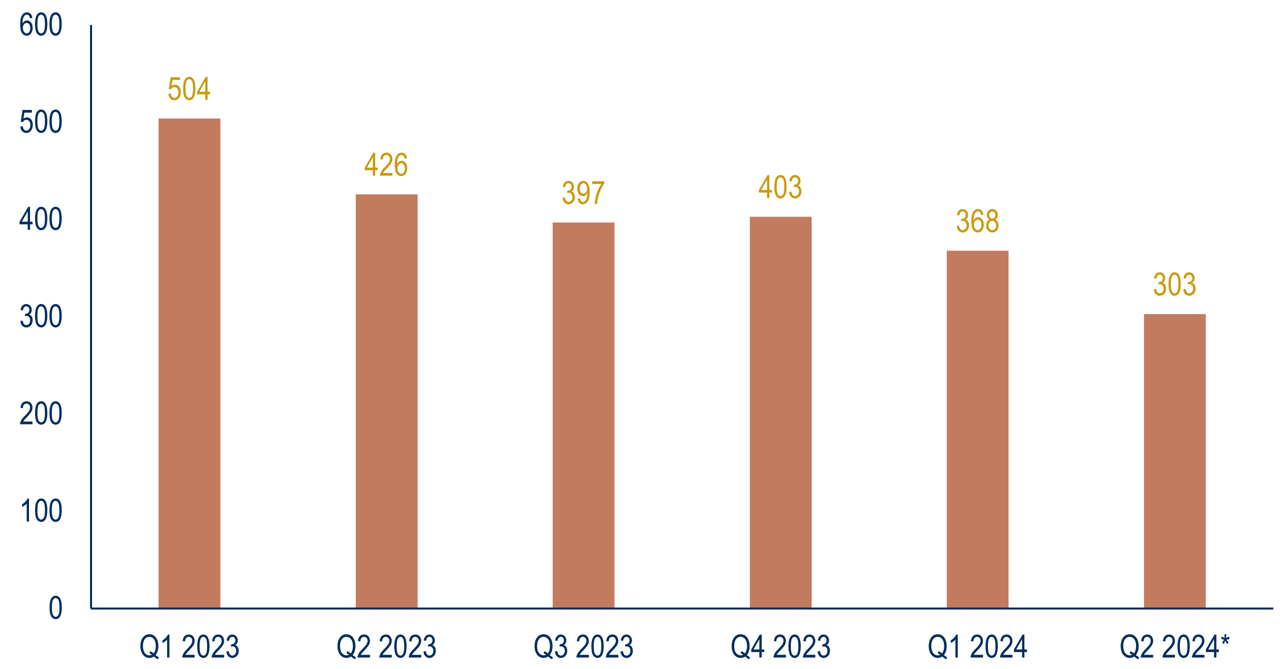
Outlook

- We anticipate the Industrial sector to see challenges stemming from interest rate sensitive pockets that affect demand

Key trends to watch

Transaction activity driven by initiatives for companies to position themselves to benefit from advanced technologies from their respective sectors and transition to green energy sources, as well as environmentally sustainable business models

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



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

DC Discusses: Strategic buyers leading the charge in global Industrials M&A

A notable shift has taken place in the Industrials dealmaking landscape, with strategic buyers now accounting for the largest proportion of mid-market acquisitions. In recent years, private equity firms have been responsible for a significant proportion of deal activity in the global Industrials sector, however a material increase in the cost of capital has widened the path of success for certain strategics.

Read here

"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."

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Chemicals & Materials

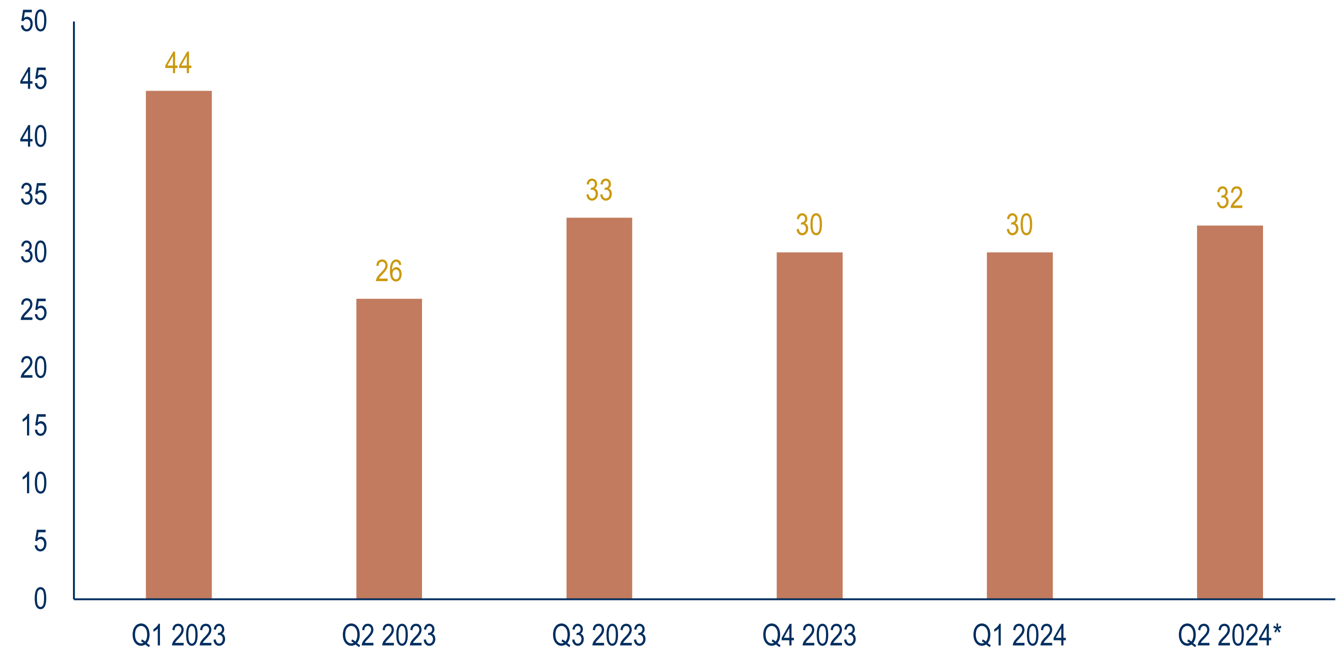
What you need to know

- We believe the continuing uncertainty regarding the impact of logistics dislocations, supply dynamics and geopolitical tensions on economic projections are impacting deal activity within the Chemicals sector, specifically the impact of higher interest rates, difficult credit conditions and an existing valuation gap between the expectations of sellers and buyers

Outlook

- Potential acquisition opportunities of specialty chemical companies with defensible profitability characteristics and growth opportunities are, in our view, leading to private equity interest in the Chemicals & Materials space
- We expect an increasing number of private equity-owned companies in the space to come up for sale due to the high number of companies sitting in funds' portfolios. Investors may now need to consider offloading these portfolios and sell these companies to raise new funds,
- A strategic realignment of chemical companies and private equity portfolios is, in our view, due to many chemical companies taking on new management, being pushed by activist investors or considering strategic alternatives
- Transactions can take longer while valuations are impacted by a complicated structure and a more thorough process: external market forces can impact projections, due diligence processes can be more comprehensive, credit facilities more expensive, and leverage less flexible

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



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
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Key trends to watch

Increased visibility on earnings for 2024 and beyond

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

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

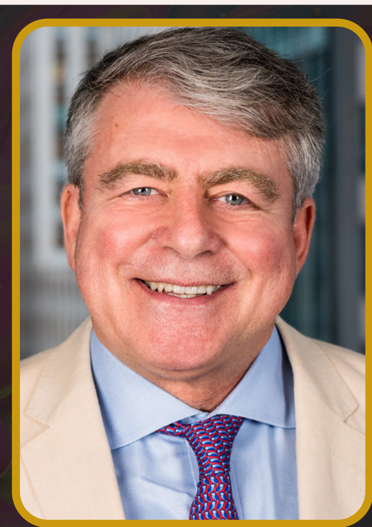
There should be continuing private equity interest in the sector, as deals in the space are **able to be part of the drive for sustainability,** rather than viewed as environmentally harmful

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

We anticipate a **growing importance of Indian buyers in the sector** as the region looks to prioritize consolidating global assets in agrochemicals, active pharmaceutical ingredients, and specialty chemicals CDMO segments

In addition, **the anticipated easing of monetary policies by major central banks** could further accelerate M&A activity by improving the lending environment and enhancing capital market access

"In 2024, we are seeing increased levels of M&A activity in the Chemicals & Materials sector, as companies reevaluate their portfolios and seek strategic opportunities to drive growth, while navigating a constantly evolving landscape that is currently marked by technological advancements, shifting geopolitical alliances, and an increasing emphasis on sustainability."



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Information Services

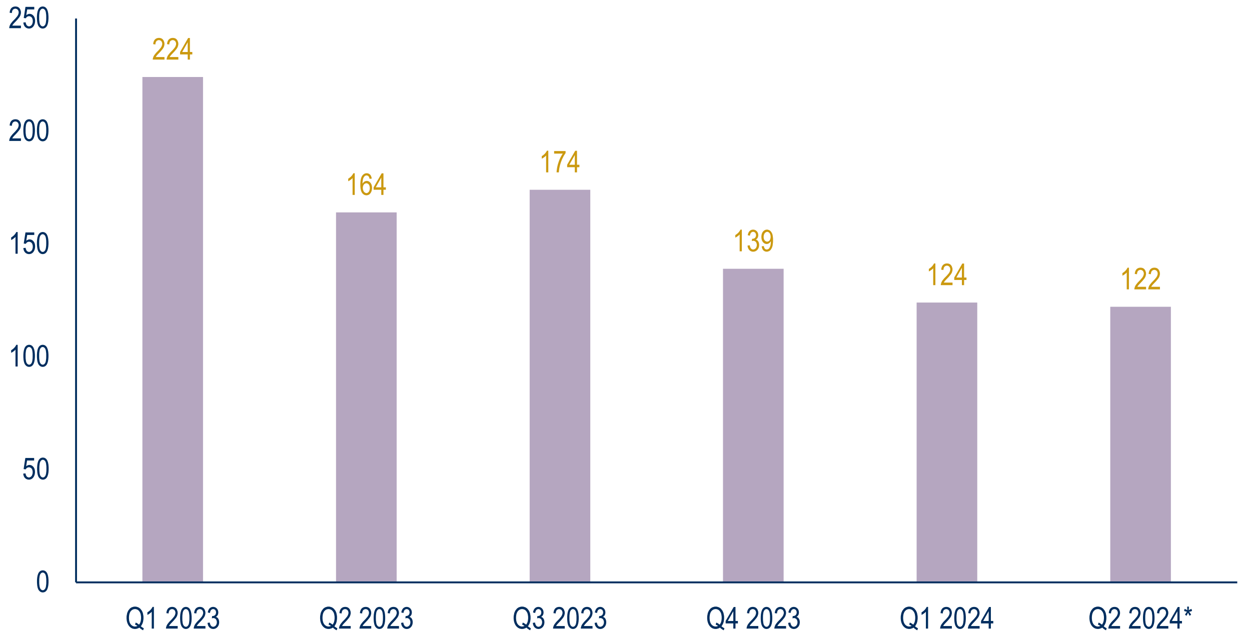
What you need to know

- Generally speaking, the private market has been trading in line with the broader public market. We saw surges of activity pre-COVID and post-June 2020, followed by a significant drop in transaction volume amidst the rise in interest rates and geopolitical conflict.
- A significant driver has been the marriage of data and analytics companies. 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
- Recent deal activity has followed lingering, post-interest rate increase market trends: scaled, "A" assets continue to trade at attractive valuations, while small tuck-in acquisitions to bolster data or analytics capabilities, depending on the financial performance and competitive auction dynamics, tend to trade at more modest valuations

Outlook

- 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
- Ongoing consolidation trends will continue to impact strategic alternatives considerations for mid-market industry participants. This consolidation activity can often serve as a catalyst to transact, as strategics and private equity-backed platforms that continue to grow via inorganic activity are creating challenging competitive dynamics for emerging, founder-owned participants
- Pricing pressure will continue to persist as customers review their data spend and re- evaluate data budgets. While price increases have been a growth catalyst for many leading firms in the sector, in many cases, industry participants are holding prices steady or even decreasing prices in a bid to retain customers
- Operators continue to focus on profitability given the increased cost of capital[xvii], which has negatively impacted growth for those that are under-capitalized

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



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
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Key trends to watch

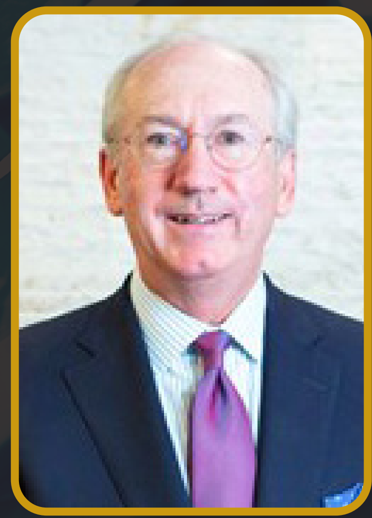
The marriage of data and analytics companies will likely continue to persist as investors demand holistic, all-in-one platforms to better inform and streamline investment decisions

Investors are demanding greater insights into their portfolios and investments (both current and future), and have been turning to robust analytics and reporting platforms to drive decision making

Technologies, such as AI and ML, that streamline workflows to generate data and analytics are critical for companies to gain a competitive edge

Platforms that are advantageous to existing data sets, provide gateways to new geographies and customer bases, or provide additional functionality, remain attractive at the right price

"We have recently seen private equity firms prevail over strategics in competitive auction processes. Strategics are being careful not to overpay, whereas the buildup of dry powder over the past few years is serving as a catalyst for private equity to stretch for premium assets."



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Telecom & Digital Infrastructure

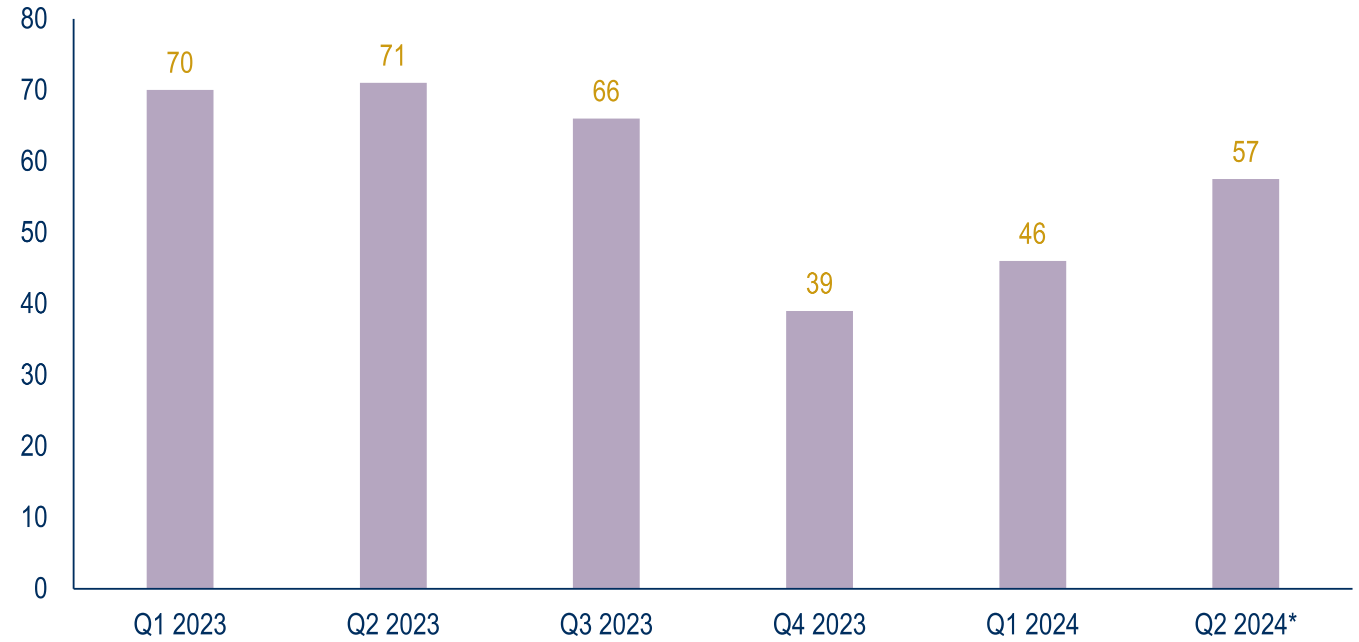
What you need to know

- We expect more activity and vibrancy in the M&A market than a year ago due to the stabilization of capital markets across all forms of telecommunications
- Deal flow has decreased in the last several quarters, however the deals closing are larger than prior years
- There is continued significant demand for broadband and wireless penetration with strategics and private equity, due to utilization and adoption of digitization

Outlook

- Desire for companies to scale and generate profits to be competitive at a lower price; it is a big moment to invest in businesses across telecom and sales support
- Within the telecommunications and digital infrastructure sector, 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

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



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
*** Please see the Appendix for search criteria

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

Dynamic consolidation and scale due to data and utilization

"The Telecom & Digital Infrastructure sector is robust. As markets stabilize, debt markets open and the spread between what a seller wants and what a buyer wants to pay shrinks for dealmakers to execute on a trade."

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Infrastructure

What you need to know

- Equity fundraising is slow compared to the levels we saw pre-COVID, as funds are struggling to raise capital
- Interest rates and the valuation of assets are not as clear as they have been, there is a logjam with sellers and buyers

Outlook

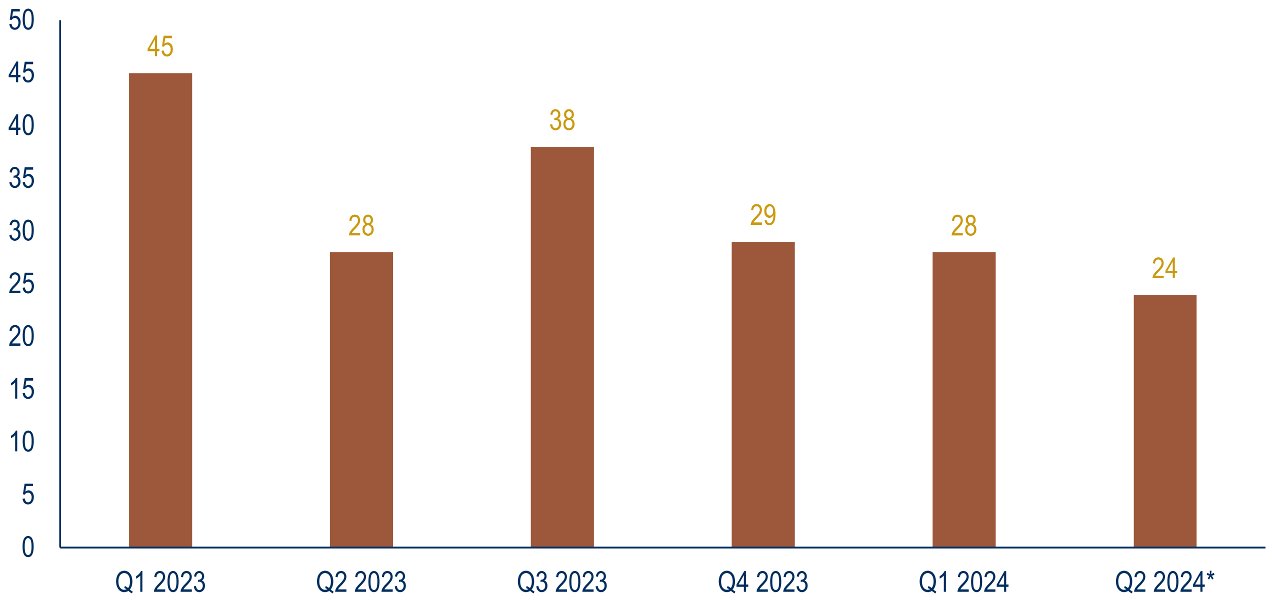
- There is a risk in evaluating business plans due to inflation, as there is a challenge in forecasting the future
- Fundraising, specifically for financial sponsors and private equity to invest in deals, will likely continue to be challenging as they adapt to the 'new normal'

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 11: Number of Infrastructure deals in the US, by quarter



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

DC Discusses: Infrastructure investing insights with KKR's Tara Davies

DC Advisory UK's Managing Director, Andrew Congleton is joined by Tara Davies, Partner, Global Head of Core Infrastructure and Co-Head of European Infrastructure, at KKR, to discuss the dynamic world of infrastructure investments. In the podcast, Tara shares insights and advice from her experiences as an infrastructure investor at a leading global investment firm.

Listen here

"The Infrastructure sector is stable to improving and while slower than it has been, new funds and dry powder are still substantial."

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Technology & Software: Cybersecurity

What you need to know

- Elevated and uncertain interest rates have increased the cost of capital[xviii], reduced the appetite for risk and put a dampener on transaction activity over the past several quarters relative to peak activity levels experienced in 2021 and early 2022. This is being seen across venture capital, private equity and strategic M&A transaction volumes
- Differences in valuation expectations between buyers and investors on the one hand, and companies looking to raise capital or be acquired on the other hand, have resulted in lower transaction volumes. Many companies that raised capital near the peak did so at valuation levels that have proved unsustainable given the macroeconomic changes and company-specific performance
- A larger cohort of companies in the mid-market have raised enough capital and / or cut their burn rates to extend runway. This allows more time for company performance to improve, to 'grow into' their historic valuation, and for macroeconomic conditions to improve. This middle cohort has largely been on the sidelines recently, with transactions delayed
- Flush capital markets from late 2020 to early 2022 has, in our view, resulted in many cybersecurity companies being formed, launching solutions and scaling their go-to-market functions. At the time, corporate buyers of cybersecurity tools have been accelerating their spending in the category

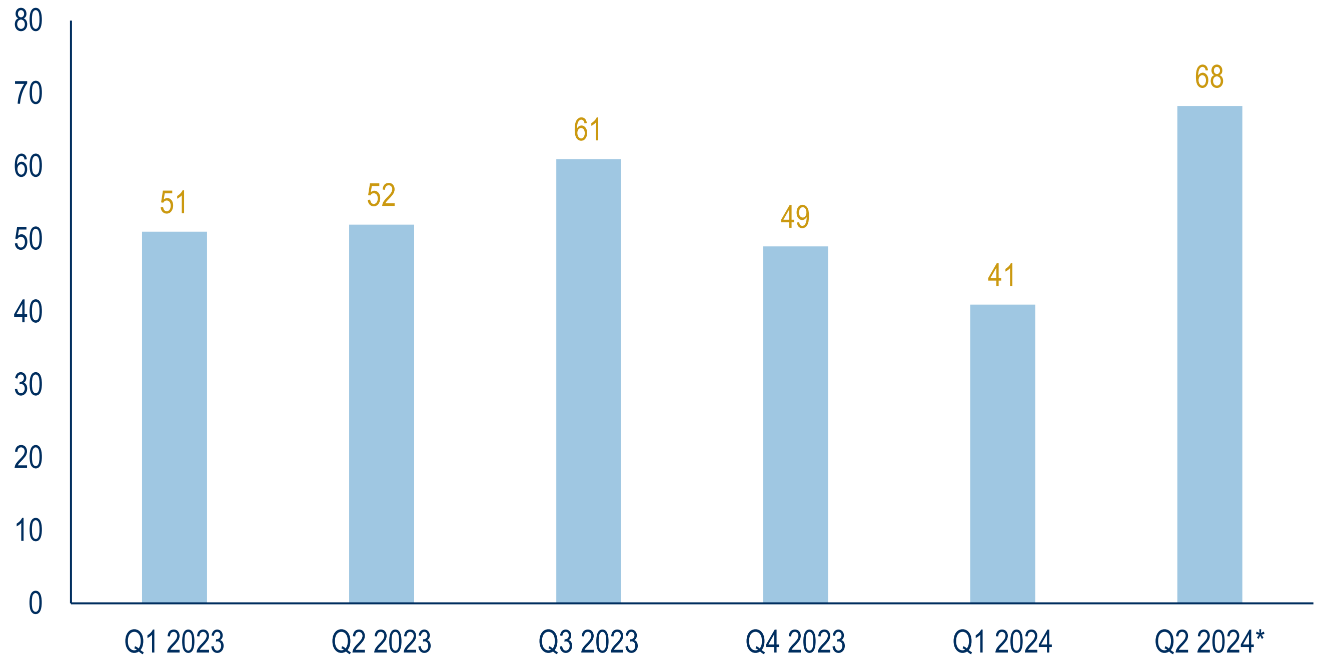
Outlook

- Despite market headwinds, large strategics can continue to pursue M&A and in some cases have convinced targets to transact with highly attractive valuations (e.g., Akamai's acquisition of Noname[xix], Armis' acquisition of Silk Security[xx], Palo Alto's acquisition of both Talon[xxi] and Dig[xxii] and CrowdStrike's acquisition of both Flow[xxiii] and Bionic[xxiv])
- Within managed services, a desire to drive efficiencies with both scale and technology has, in our view, contributed to deal activity. Many companies with managed services offerings can raise capital to finance rapid organic growth and achievement of scale
- While cybersecurity spending remains strong[xxv], growth has decelerated[xxvi], and competition has increased. As a result, organic growth has been difficult to achieve for many companies in the space
- At the same time, we have observed growth capital become harder to come by and investors have increasingly turned their attention to capital efficiency, if not, profitability or a clear path to profitability. Companies without the growth rates to justify burn rates and attract capital from new investors may be forced to cut back spending

Key trends to watch

Corporate buyers of cybersecurity software tools are increasingly interested in pursuing vendor consolidation strategies. This has led large cybersecurity vendors to pursue "platformization" strategies to satisfy the requirements of their customers, in which they offer a broad array of capabilities

Figure 12: Number of Cybersecurity deals in the US, by quarter



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

"Given the amount of dry powder that investors need to deploy and the multiple drivers of strategic M&A interest, deal activity is poised to rebound in the near-to-medium term, in line with anticipated improvements in macroeconomic conditions. The logic of transactions across venture, growth, buyout and strategic M&A are driven by the arms race between attackers and defenders, a need to finance continued technology innovation, opportunities to recapitalize companies with tired investor bases, and the advantages of scale in both go-to-market motions and operational efficiency."

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Technology & Software: FinTech

What you need to know

- The continued uncertainty around the timing of the Federal Reserve's decision to lower interest rates is negatively impacting FinTech deal activity, so there is a greater focus on organic growth and the adoption of AI-driven solutions to reshape business operations
- Valuation expectations have, in our view, firmed up and recent transactions have established a baseline
- We see significant appetite from both strategic and financial investors to deploy capital for acquisitions when there is a strategic fit or a growth and profitable opportunity

Outlook

- FinTech companies are becoming more agile and are continuously innovating to stay competitive within the rapidly evolving payments landscape, particularly for their increasingly tech-savvy customer
- We believe FinTech companies will find it challenging to access capital when the path to profitability is not near
- To enhance future resilience, it is essential for FinTech companies to explore new revenue streams. For those with sound finances, pursuing M&A can represent a strategic move to broaden market reach and drive growth
- Valuation expectations versus market reality continue to be a challenge for companies that raised money in 2021

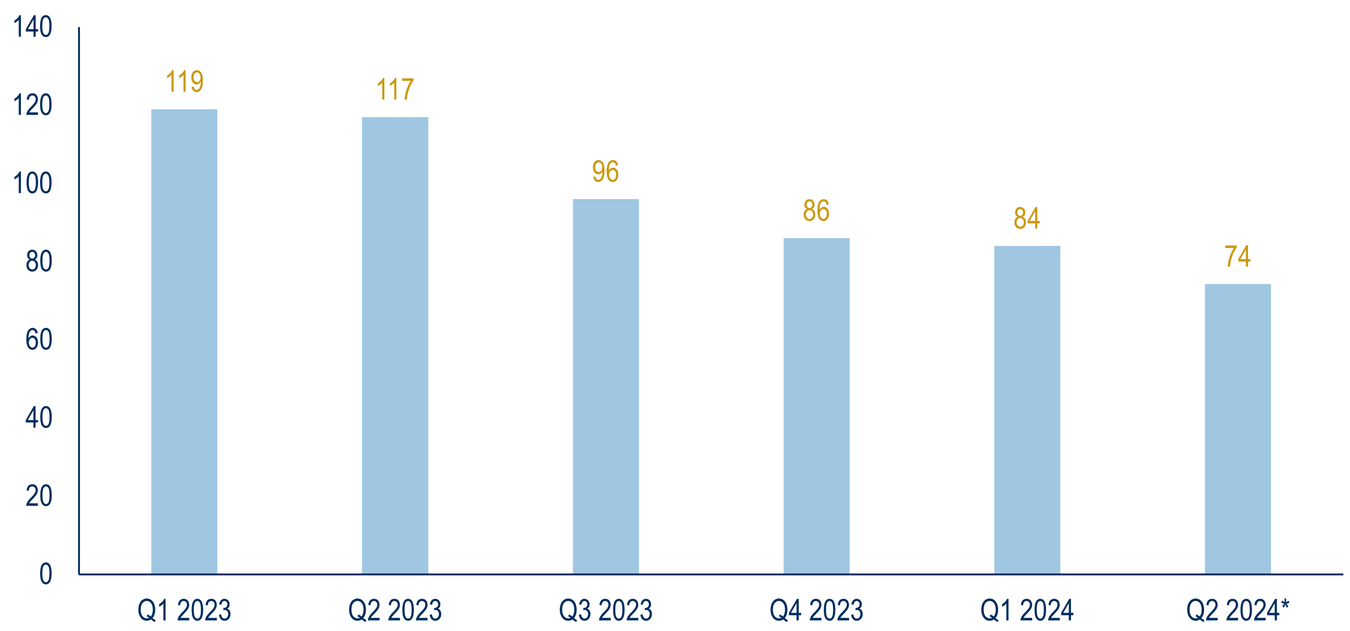
Key trends to watch

A focus on innovation can lead FinTech companies to leverage AI and data analytics to enhance payment systems

FinTech companies that can demonstrate **sustainable growth in a large addressable market** will be attractive to private equity and strategic buyers

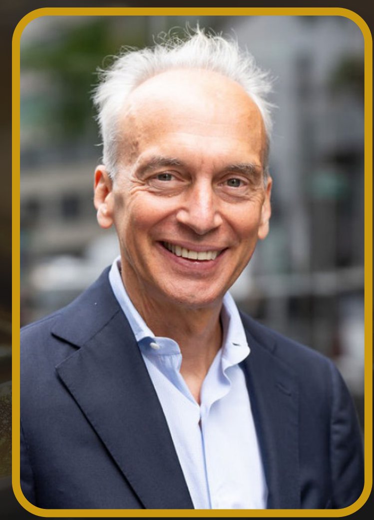
Profitability today, or in the near term, is critical for FinTech companies looking to raise capital

Figure 13: Number of FinTech deals in the US, by quarter



Source: PitchBook Data, Inc.;*quarter-to-date 4/1/2024 to 6/15/2024, **Data has not been reviewed by PitchBook analysts.
***Please see the Appendix for search criteria

"Several transactions have been recently announced or completed, and several more are in the market or about to be launched. This is a positive improvement compared to last year, although the volume is still significantly below that of 2021, and even early 2022.[xxvii]"



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***Appendix

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Pitchbook search criteria for figures 1-7

Sector	Search criteria
Private Equity Deal Activity	Deal Date: From: 01-Jan-2023; To: 21-Jun-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; Search HQ Only;
Aerospace, Defense & Government Services	Deal Date: From: 01-Jan-2023; To: 15-Jun-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 M&A and Buyout; Industries: Government > IT Services; Government > Civilian Services, Defense > Defense Services, Defense > Defense Products
Consumer, Leisure & Retail	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Asset acquisition; Asset divestiture (corp); Corporate divestiture; Spin-Off; Location: United States; Search HQ Only; 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-Jan-2023; To: 15-Jun-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; Search HQ Only; Industries: Consumer Products and Services (B2C) > Consumer Non-Durables > Personal Products; Search Primary Industry Only;
Education & EdTech	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Search HQ Only; 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-Jan-2023; To: 15-Jun-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; Search HQ Only; Industries: Healthcare > Healthcare Devices and Supplies; Healthcare > Healthcare Services; Healthcare > Other Healthcare; Search Primary Industry Only;

Pitchbook search criteria for figures 8-13

Sector	Search criteria
Industrials	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Search HQ Only; 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-Jan-2023; To: 15-Jun-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; Search HQ Only; Industries: Materials and Resources > Chemicals and Gases; Materials and Resources > Other Materials; Search Primary Industry Only;
Information Services and Media	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Search HQ Only; Industries: Business Products and Services (B2B) > Commercial Services > Media and Information Services (B2B); Search Primary Industry Only;
Telcom & Digital Infrastructure	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Search HQ Only; 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;
Infrastructure	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Search HQ Only; 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;
Cybersecurity	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Search HQ Only; Verticals: Cybersecurity;
FinTech	Deal Date: From: 01-Jan-2023; To: 15-Jun-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; Search HQ Only; Verticals: FinTech;

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